STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street
San Francisco, CA 94105

RH01018405 **September 3, 2003**

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

PLAN OF OPERATIONS

TEXT OF PROPOSAL

NOTE: THE ENTIRE TEXT OF THIS CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN PLAN OF OPERATIONS IS NEW. FOR EASE OF READING, IT IS PRINTED IN REGULAR TYPE, AND NOT PRINTED IN UNDERLINE OR ITALICIZED FORMAT.

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PREAMBLE

THIS CONSTITUTES THE PLAN OF THE INSURANCE COMMISSIONER, PURSUANT TO CALIFORNIA INSURANCE CODE SECTION 11620, APPROVING AND ISSUING A REASONABLE PLAN FOR THE EQUITABLE APPORTIONMENT, AMONG INSURERS ADMITTED TO TRANSACT LIABILITY INSURANCE OF THOSE APPLICANTS FOR AUTOMOBILE BODILY INJURY AND PROPERTY DAMAGE LIABILITY INSURANCE WHO ARE IN GOOD FAITH ENTITLED TO BUT ARE UNABLE TO PROCURE SUCH INSURANCE THROUGH ORDINARY MEANS.

PROVISIONS FOR THE ASSIGNMENT OF APPLICANTS—SECTIONS 1 THROUGH 21 AND 22 THROUGH 39 – ARE APPLICABLE TO THE ASSIGNMENT OF PRIVATE PASSENGER NONFLEET AUTOMOBILES, MISCELLANEOUS NONFLEET VEHICLES (AS DEFINED IN SECTION 8), AND NAMED NONOWNER APPLICANTS NOT SUBJECT TO THE MOTOR CARRIER ACT OF 1980 OR ANY LAW OR REGULATION REQUIRING HIGHER LIMITS THAN THE MAXIMUM PROVIDED IN SECTION 25 OF THE PLAN.

SECTIONS 1 THROUGH 21 AND 40 THROUGH 57 ARE APPLICABLE TO ALL APPLICANTS OTHER THAN THOSE MENTIONED ABOVE AND ARE PROVIDED COVERAGE UNDER THE COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE (CAIP).

INTRODUCTION

The California Automobile Assigned Risk Plan was created to provide automobile insurance coverage to eligible risks who seek coverage and are unable to obtain such coverage through the voluntary market. (For complete eligibility requirements, see Sections 22 and 40). Eligible Plan risks are shared among companies writing automobile insurance in the state of California. This Plan becomes effective on (INSERT EFFECTIVE DATE OF PLAN MANUAL).

The Plan of Operation is divided into parts as follows:

Part I Definitions

- Manual terms

Part II Administrative

- Administrative rules of the Plan

Part III Producer Certification and Performance Standards

- How to apply for and maintain producer certification
- Performance standards
- Peer Review Subcommittee

Part IV Personal Automobile

- Eligibility
- Coverages
- Other applicable provisions

Part V Commercial Automobile

- Availability and scope of the Commercial Automobile Insurance Procedure (CAIP)
- Eligibility
- Coverages
- Other applicable provisions

It is required that users of this Manual read the Definitions in Part I, the Administrative Plan Manual in Part II, the Producer Certification and Performance Standards Manual in Part III, the Personal and Commercial Plan Manuals contained in Parts IV and V, and review the General Rules. Before submitting an application for coverage, it is strongly recommended that users of this Manual read "How to Submit an Application to the California Automobile Risk Plan." To the extent to which "How to Submit an Application to the Plan" conflicts with the Personal or Commercial Automobile Parts, the Administrative Part, or the Producer Certification and Performance Standards Part of this Plan, the provisions of the respective Personal or Commercial Automobile Part, Administrative Part, or Producer Certification and Performance Standards Part shall apply.

HOW TO SUBMIT AN APPLICATION TO THE CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

HOW, WHEN, AND WHERE

As certified producer of record, you can assist the assigned insurer in providing better service to your insureds by making every effort to facilitate that insurer's handling of assignments made under the California Automobile Assigned Risk Plan.

Incomplete applications, application supplements, or requests for changes in the policy that are not readily identifiable to the assigned insurer or servicing carrier only delay the processing of Plan assignments and endorsements. An original current CAARP application must be used for each submission. Copies and facsimiles are not acceptable. Before mailing each submission to the Plan, please review the application to ensure that you have provided the assigned insurer, servicing carrier, or Plan with all the information necessary for issuance of the policy or completion of the transaction.

HOW TO APPLY TO THE PLAN

Producers completing private passenger applications should not telephone the Plan Office for premium quotations, but should refer to the Rules and Rates in the Manual.

The Producer should advise the applicant that the policy is being issued as part of the California Automobile Assigned Risk Plan.

In completing the application, the producer must be certain that

- the application is completed in the name of the individual or entity requesting coverage;

- the application is signed and dated, and the time so indicated by the applicant and the producer of record;

- the application contains the requested effective date of coverage. If using the Electronic Effective Date Procedure, the producer of record and applicant must certify the date and time of coverage. The reference number must appear on the application in the designated area;

- all applicable questions are answered fully. Blank or incomplete answers may necessitate that the Plan returns the application to you before assignment can be made. For specific minimum application requirements, refer to Section 23 for private passenger applicants and Section 41 for commercial applicants;

- any and all attachments pertinent to the application are attached:

- the deposit accompanying the application is correctly drafted and is correct for the method of payment chosen in accordance with the payment option selected from Sections 26 or 44 of the Plan;

- the applicant has read and signed the application and concurs that all answers are correct and complete;

- the original application is mailed to the California Automobile Assigned Risk Plan. For private passenger and commercial applicants, the effective date and time of coverage may be established using the Electronic Effective Date Procedure. If application is made without using the Electronic Effective Date Procedure, coverage shall be effective on the date following receipt of the application in the Plan Office;

- the name, address, tax identification number, license number, and telephone number of the producer of record are included.

Specific questions on the California Automobile Assigned Risk Plan Manual, or any portion thereof, should be directed to the California Automobile Assigned Risk Plan at P.O. Box 7917, San Francisco, CA 94120-7917 or (800) 622-0954.

WHAT TO SEND TO THE PLAN

An original completed current CAARP application shall be forwarded to the Plan Office no later than two working days after its completion, as evidenced by the postmark of the United States Postal Service.

Private passenger applications should be accompanied by the following documents:

- Deposit check
- Copies of the following:
  - Applicant's and principal operator's licenses
  - Vehicle registration(s) or proof of ownership
- Supplemental vehicle schedule, if applicable.

HOW TO APPLY FOR ADDITIONAL COVERAGES OR CHANGES IN THE POLICY

All requests for changes to the policy shall be submitted in writing and accompanied by any required deposit. If an insurer or servicing carrier has been assigned, the policy change request should be submitted directly to the insurer or servicing carrier by the producer no later than three working days after receipt by the producer, NOT to the Plan Office. For the requested effective date to be honored, the policy change request shall be mailed to the assigned insurer or servicing carrier within one working day of its completions as evidenced by the postmark of the United States Postal Service. Be certain the insured's policy number and other identification numbers, if any, are included in your written policy change request.

Only those coverages shown in Sections 25 and 43 of the Plan are available.

PRODUCER RESPONSIBILITY

Producer certification does not create an agency relationship between the Plan or any assigned insurer or servicing carrier and the producer. All actions of a producer related to the Plan are conducted on behalf of the applicant/insured and not on behalf of the Plan. In so far as the producer is acting as an agent of any party in connection with any actions related to this Plan, the producer shall be deemed to be the agent of the applicant and not the agent of the Plan and/or assigned insurer or servicing carrier.

Failure to comply with producer performance standards in Section 20 may result in referral to the Producer Peer Review Subcommittee and suspension or revocation of producer certification.

Violations of producer performance standards may also be referred by the Manager to the Department of Insurance for investigation.

PURCHASES OF FORMS, MANUALS, ETC.

Application forms to be used when applying to the California Automobile Assigned Risk Plan are available at no charge from AIPSO-Mail Order Management Department by calling (401) 942-9799. The following materials are available at no charge:

- Applications
- Electronic Effective Date Procedure Retraction Request
- Farm Labor Application Supplement
- Insurer Complaint Form
- Electronic Effective Date Procedure Pamphlet
- Commercial Automobile Insurance Procedure Pamphlet
- Producer Fraud Pamphlet
- Motorist Fraud Pamphlet

The California Plan Manual is available at cost from AIPSO—Mail Order Management Department by calling (401) 942-9799. The following manuals are available for purchase at cost from AIPSO—Mail Order Management Department:

- California Automobile Assigned Risk Plan Simplified Manual of Rules and Rates

- Portfolio of Endorsements and Forms

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

DEFINITIONS

NOTES

Sec. 1. DEFINITIONS

Unless the context otherwise requires, the following definitions apply:

"Applicant" means a person or entity applying for coverage through the Plan.

"Application" means the current CAARP form(s) which all applicants must complete.

"Assigned insurer" means the insurer to which a private passenger nonfleet assignment has been made by the Plan Manager.

"Buy-out company" means an insurer that contracts with a LAD servicing company under a LAD arrangement to have the LAD servicing company process or write its assigned risk business, pursuant to Section 8.C.

"CAIP servicing carrier" means an insurer that processes commercial assigned risk business for the Commercial Automobile Insurance Procedure on behalf of other companies pursuant to Sections 11 and 12.

"Calendar year" means a given 12-month period (generally from January 1 through December 31) during which an insurer's premium, expense, and loss transactions are maintained, irrespective of the effective dates of the policies out of which the premium, expense, and loss arose.

"Certified producer" means a broker/agent licensed by the Commissioner who has been authorized to submit applications to the Plan. In all matters relating to the Plan, including, but not limited to, the application, the payment of premium, and the transmission of the policy, a certified producer exclusively represents the applicant or the insured and is not an agent of the Plan or the assigned insurer or CAIP servicing carrier, as defined in Section 19.

"Commercial Automobile Insurance Procedure (CAIP)" means the procedure for the writing of commercial risks through the use of servicing carriers, as set forth in Sections 11 and 12.

"Commissioner" means the Insurance Commissioner of the State of California.

"Committee" means the Advisory Committee selected in accordance with the California Insurance Code.

"Completion date of the audit" is the date the typed final audit report is produced.

"Days" means calendar days unless otherwise stated.

"Determination date" is the processing or typing date of the policy or endorsement.

"Electronic Effective Date Procedure" means the Plan procedure whereby certified producers may establish the date and time of coverage for private passenger nonfleet and CAIP risks by obtaining an electronic reference number by toll free telephone call.

"Eligibility certification statement" means the certification required by the California Insurance Code for private passenger applicants contained in Part 13 of the private passenger application.

"Equivalent to" used in reference to Plan policy coverage in Sections 25 and 43 means coverage equal to or broader than that provided in the policy form or endorsement approved for Plan use.

"Fleet" means five or more motor vehicles of any type.

"Insurer" means an insurance company licensed to write automobile liability insurance that is required to subscribe to this Plan. An insurer that is licensed and writing automobile liability insurance must also participate in the assessments, assignments, and CAIP to the extent outlined in the provisions of this Plan.

"LAD servicing company" means an insurer that processes or writes private passenger nonfleet assigned risk business for the Limited Assignment Distribution Procedure (LAD) on behalf of other insurers pursuant to Section 8.B.

"Limited Assignment Distribution (LAD) Arrangement" means an arrangement, formed by two insurers not under common ownership or management, whereby one insurer, acting as an approved LAD servicing company, contracts to write the private passenger assignments of the other insurer in return for a buy-out fee from that insurer.

"Long haul trucking risks" means insurance covering trucks or truckers operating beyond a radius of 50 miles from the city or location of their principal garaging and subject to federal or state regulations pertaining to trucks or truckers.

"Manager" or "Plan Manager" means the person or organization appointed in accordance with the California Insurance Code.

"Member insurer" means an insurance company licensed and writing Voluntary All Other Automobile Liability premium that is required to subscribe to the Plan and participate in assessments and CAIP to the extent outlined in the provisions of this Plan.

"Miscellaneous vehicle" and "**miscellaneous nonfleet vehicle"(used in reference to the statistical reporting of voluntary base data)** mean the following types of vehicles which are registered and not part of a fleet: motor homes, auto homes (self-propelled), campers, dune buggies, all terrain vehicles, antique autos, amphibious autos, snowmobiles, golf carts, motorcycles, motorscooters, motorbikes, mopeds, and trail bikes. Miscellaneous nonfleet vehicle does not include vehicles subject to the Federal Motor Carrier Act of 1980, or any law or regulation requiring limits other that the minimum financial responsibility limits specified under Section 25 of the Plan Manual.

"Nonfleet" means four or less motor vehicles.

"Plan" means the California Automobile Assigned Risk Plan.

"Postmark" means the postmark applied by the United States Postal Service and does not include the postmark from metered mail.

"Power unit" means a motorized vehicle.

"Principal operator" means a person who primarily operates the vehicle.

"Private Passenger Nonfleet Automobile Assigned Risk Plan premiums" shall mean the total of automobile bodily injury and property damage liability, medical payments, and uninsured motorists premiums for private passenger nonfleet vehicles, miscellaneous nonfleet vehicles, and named nonowner applicants written for assigned risk insureds.

"Producer" means a certified producer.

"Producer Peer Review Subcommittee" means a group of certified producers appointed by the Advisory Committee, subject to the approval of the Commissioner, whose responsibilities in conjunction with the Producer Certification Program are to review the performance of producers who have exceeded the allowable violations of Plan producer performance standards.

"Public automobile risks" means motor vehicles used in carrying passengers for hire or compensation providing the seating capacity does not exceed 16 persons including the driver.

"Registered" and **"registration"** refer to the process or document required by state law to comply with the motor vehicle registration requirements of a state.

"Vehicle" and **"motor vehicle"** have the same meanings as set forth in the California Vehicle Code.

"Voluntary All Other Automobile Liability Net Direct Written Premium" shall be the automobile liability premium included on the Exhibit of Premiums and Losses of the insurer's annual statement for the calendar year ending December 31 of the second prior year minus the total private passenger automobile bodily injury and property damage liability, medical payments, and uninsured motorists voluntary premiums, miscellaneous nonfleet liability premiums, the total Automobile Assigned Risk Plan premiums (including CAIP direct written premiums of servicing carriers) written, death and disability premiums, and reinsurance premium assumed by the insurer.

"Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years" shall be the number of private passenger nonfleet automobile injury liability car years written by the insurer in the state for the calendar year ending December 31 of the second prior year, regardless of the type of automobile liability insurance policy under which the car years are written, excluding private passenger automobile assigned risk Plan car years. Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years shall include weighted car years for miscellaneous nonfleet and named nonowner applicants.

"Working day" means a day on which business is conducted on Monday through Friday, except for legal holidays when the United States Post Office is closed.

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

ADMINISTRATIVE PART

NOTES

Sec. 2. PLAN MEMBERSHIP

Every insurer admitted to transact liability insurance shall subscribe to the Plan. Each subscriber insurer shall meet its respective obligations for any applicable assignments, assessments, reporting, and CAIP participation.

Sec. 3. ADMINISTRATION

A. The Plan shall be administered and operated by the Commissioner as authorized by law. The Commissioner shall consult with the Advisory Committee on a regular basis on policy matters affecting the operation of the Plan. The Advisory Committee with the approval of the Commissioner shall appoint a Manager to carry out the administration and operation of the Plan.

Whenever deemed necessary, the Commissioner may examine the business, affairs, and operations of the plan. The costs and expenses of the Commissioner's examinations shall be paid as prescribed in California Insurance Code Section 736 and shall be a proper charge against the funds of the plan as an expense and cost of administering the plan.

B. **Advisory Committee Composition**

An Advisory Committee of 15 members shall assist the Commissioner with the administration and operation of the Assigned Risk Plan. The Advisory Committee (hereinafter referred to as "the Committee") shall consist of

- Eight insurers
  - Four public members
  - Two producers
  - The Commissioner or his/her designee

C. Selection of Advisory Committee Representatives

1. Companies

The eight insurers representing subscribing insurers shall be elected annually by subscribing insurers. Each insurer representative serving on the Committee shall be a salaried employee of the insurer. Insurer representatives shall be chosen in accordance with the following criteria:

a. At least two insurer representatives shall represent insurers having their principal headquarters located in California.

b. At least two insurer representatives shall represent insurers who have average annual automobile liability premiums in California below $100,000,000 in the prior three years.

c. At least one insurer representative shall represent an insurer with average annual automobile liability premiums in

California exceeding $100,000,000 in the prior three years.

d. At least one insurer representative shall represent an insurer with average annual automobile premiums in California exceeding $700,000,000 in the prior three years.

No CAIP servicing carrier shall serve on the Committee. If a company is appointed as a CAIP servicing carrier, it shall resign its seat concurrent with the effective date of its appointment.

2. Public Members

Four public members shall be appointed by the Commissioner. Public members shall be paid $250 per meeting day and shall be reimbursed all reasonable expenses incurred.

2. Producer Representatives

Two producer representatives shall be appointed by the Commissioner.

D. **Advisory Committee Meetings**

The Committee shall conduct regularly scheduled meetings approximately not less than once every other month on a date established by the Committee. Meetings other than the regularly scheduled meetings may be held by conference call. Voting may be conducted in person, by mail, or by fax machine.

All regularly scheduled meetings of the Committee shall be held in California. Those meetings shall be open to the public with notice. An agenda shall be published prior to the meeting date.

Committee actions subject to a vote shall pass if the number of affirmative votes exceeds the number of negative votes. Abstentions are not votes.

The Commissioner shall remove Committee members for nonattendance. Unless satisfactory excuse is made in writing to the Commissioner in a timely manner, nonattendance shall mean the failure to appear at more than two regularly scheduled meetings in a 12-month period. Should the Committee member who is removed represent an insurer or agency, another representative from the insurer or agency may not be appointed for a period of not less than two years

E. **Annual Meeting**

Annually the chairperson of the Committee shall appoint a nominating committee which shall, after consultation with all Plan member insurers, nominate a slate of insurers from each respective group or class of insurers heretofore described in C.1. above.

At an annual meeting called upon not less than 45 days' notice in writing

to all insurers, the member insurers nominated shall be submitted to all insurers for approval. At the annual meeting, nominations other than those put forth by the nominating committee shall be permitted, provided that an entire sale of eight voting insurers representing the respective groups or classes of insurers defined herein shall form the basis for all such elections. A majority of the insurers shall constitute a quorum and voting by proxy shall be permitted. Notice of each annual meeting shall be accompanied by an agenda for the meeting.

Sec. 4. COST OF ADMINISTRATION

A. **Subscriber Fee**

Each insurer subscribing to the Plan shall pay a separate minimum annual fee of $10.

B. **Assessment**

The reasonable costs of administering the Plan for each year shall be determined annually by the Manger and approved by the Advisory Committee. Such costs shall be apportioned and assessed to all insurers in the same proportion as their obligations pursuant to this Plan. The minimum annual assessment shall be $250.

Each insurer shall pay every assessment within 30 days of receipt of the assessment.

The costs associated shall be directly attributed to the management of the Plan and directly related to its programs. The Manager shall have authority to disburse funds of the Plan in payment of expenses necessary for the administration of the Plan.

C. **Basis for Apportionment**

The cost of the Plan, including any personnel and contracting costs, shall be fairly apportioned among the subscribing insurers to whom assignments may be made.

Each subscribing insurer's ratio of Voluntary Private Passenger Nonfleet Net Direct Written Car Years and Voluntary Other Than Private Passenger Net Direct Written premiums to the statewide industry total written car years and premiums shall be used as the basis of apportionment of all Plan expenses incurred.

If at the time of the initial assessment for any calendar year, data for the second prior year is not available, the assessment shall be based upon the latest available data. In such event, the assessment shall be adjusted subsequently using data for the second prior year.

D. **Insurers Not Writing**

No AIPSO or Plan assessment shall be levied against an insurer which has written no automobile liability insurance other than for Automobile Assigned Risk Plan insureds during the period for which the quotas are based.

Sec. 5. DUTIES OF ADVISORY COMMITTEE

The Committee shall advise the Commissioner on policy matters affecting the operation of the Plan, including but not limited to rate making, assignment procedures, appeals, and antifraud activities.

With the approval of the Commissioner, the Committee shall appoint a Manager to carry out the administration of the Plan, employ sufficient personnel to provide services necessary to the operation of the Plan, and contract for the provision of statistical and actuarial services.

The Committee shall have the right to retain counsel of its choice pursuant to a selection process adopted by the Committee and the right and necessary standing to bring and defend actions in judicial and administrative proceedings related to the Plan in the name of the Plan, with all powers attendant thereto, including the right to retain consultants, counsel, and expert witnesses of its choice.

Sec. 6. DUTIES OF THE MANAGER

A. Location of Office

The Manager shall establish and maintain an operations office in California that shall, at a minimum, perform administrative functions, receive and process applications, make assignments, and respond to consumer inquiries.

B. Manager's Reports and Records

The Manager shall keep complete and adequate records and statistics as required by the Commissioner or the Committee. Such records and statistics shall include applications submitted, assignments made, and policies issued.

As requested by the Commissioner or the Committee, the Manager shall prepare other reports.

C. Records of Funds

A record shall be kept by the Manager of all funds received, disbursed, and held. The Manager shall prepare and submit to the Commissioner, the Committee, and to all subscribing insurers a true and correct statement of all receipts and disbursements for each calendar year. The Manager shall make each report to the Commissioner and send a copy to the Committee by April 15 of each year, covering the prior calendar year.

D. Record of Committee Meetings

The Manager shall keep a record of all Committee proceedings, including all proceedings of subcommittees of the Committee.

Sec. 7. AMENDMENT OF PLAN

The Committee may submit recommendations for amendments to this Plan to the Commissioner. The Commissioner may approve or issue reasonable amendments to the Plan if he or she first holds a public hearing to determine whether the amendments are in keeping with the intent and purpose of the Plan.

Notice of public hearings shall be published at least 60 days prior to the hearing or close of the public comment period for an amendment. Such notice shall appear in two

newspapers of general circulation, one published in the City and County of San Francisco, and the other published in the City of Los Angeles.

Sec. 8. DETERMINATION AND FULFILLMENT OF PRIVATE PASSENGER NONFLEET LIABILITY QUOTAS

A. **Assignment of Applications**

Commencing with [insert effective date], the Plan shall assign applications which are eligible for coverage based on each insurer's quota. An insurer's quota shall reflect that insurer's proportion of Private Passenger Nonfleet Automobile Assigned Risk Plan premiums that its respective Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years bear to the statewide total of the Voluntary Private Passenger Nonfleet Net Direct Written Car Years of all insurers in the state.

$$\text{Market Share} = \frac{\text{Insurer Voluntary PPNF Liability Net Direct Written Car Years}}{\text{Statewide Voluntary PPNF Liability Net Direct Written Car Years}}$$

The Manager shall assign risks in sequence and number as far as practicable. Nothing in this Section shall be construed to require that assignments be equitably apportioned on a day-to-day basis.

For the purposes of the distribution described above, (1) Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years and (2) Private Passenger Nonfleet Automobile Assigned Risk Plan premiums shall be defined as follows:

1. "Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years" shall be the number of private passenger nonfleet automobile bodily injury liability car years written by the insurer in the state for the calendar year ending December 31 of the second prior year, regardless of the type of automobile insurance policy under which such car years are written, excluding Private Passenger Assigned Risk Plan Car Years and Private Passenger Low Cost Automobile Insurance Program Car Years. Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years shall include weighted named nonowners and miscellaneous nonfleet personal vehicles for the following classes:

   a. Motor homes, auto homes (self-propelled)

   b. Campers

   c. Dune buggies

   d. All-terrain vehicles

   e. Antique autos

   f. Amphibious autos

   g. Snowmobiles

h. Golf carts

i. Motorcycles, motorscooters, motorbikes, trail bikes, and mopeds

2. "Private Passenger Nonfleet Automobile Assigned Risk Plan premiums" shall mean the total of automobile bodily injury and property damage liability, medical payments, and uninsured motorists protection premiums for the following classes of Automobile Assigned Risk Plan risks:

a. Private passenger nonfleet vehicles

b. Miscellaneous nonfleet personal vehicles, as defined in subsection 8.A.3.

c. Named nonowner applicants

3. Miscellaneous nonfleet personal vehicles shall include the following types that are registered:

a. Motor homes

b. Campers

c. Dune buggies

d. All-terrain vehicles

e. Antique autos

f. Snowmobiles

g. Golf carts

h. Motorcycles, motorscooters, motorbikes, trail bikes, and mopeds

4. Using statewide Voluntary Private Passenger Nonfleet Liability premium and car year data, AIPSO shall develop weighted voluntary car year data for all nine classes of miscellaneous nonfleet personal vehicles and named nonowner applicants. AIPSO shall adjust the Voluntary Private Passenger Nonfleet Liability Car Year data to include the weighted car years for the miscellaneous nonfleet personal vehicles and named nonowner applicants to comply with Section 8.A.

B. **Limited Assignment Distribution Procedure**

Groups of insurers not under common ownership or management may form a Limited Assignment Distribution (LAD) arrangement. Each LAD arrangement shall have one servicing company which writes assigned risk business on behalf of those members of the arrangement which choose to buy-out from their quotas.

1. LAD servicing companies serve at the pleasure of the Commissioner and must meet

the following eligibility requirements:

a. write at least .5% of the voluntary car years written in the state of California,

b. have at least $10,000,000 surplus,

c. certify to the Commissioner its ability to service the LAD contract(s).

The Commissioner has the option to consider a LAD servicing company application from an insurer writing less than .5% of California voluntary car years or which has no market share, provided the insurer agrees to meet the market share eligibility requirement within three years from the date that insurer becomes a LAD servicing company. Appointment as a LAD servicing company is subject to approval by the Commissioner.

Exception: An insurer appointed and serving as a LAD servicing company prior to the inception of this LAD program that does not meet the market share eligibility requirement of this LAD program or that has no market share shall agree to meet the market share requirement within five years of the effective date of this Section.

2. Insurers that write 5% or less of California voluntary car years may buy-out from their quotas with approval of the Manager.

   The Committee and Commissioner have the option to consider a buy-out contract for an insurer writing over 5% of California voluntary car years. Such a buy-out is subject to approval by the Committee and Commissioner.

3. The Committee and Commissioner will approve the basic LAD servicing company and buy-out company contracts for use with the LAD program, including the minimum length of such contracts. Any substantive modifications to the basic contract must be approved by the Committee and the Commissioner.

4. The servicing company shall submit an original of each buy-out contract and any subsequent amendment to the Manager without the actual contract fee. The Manager shall maintain a buy-out contract file. The Manager shall review each contract within 10 days of its receipt. The Manager shall approve each contract which complies with all LAD requirements. If the Manager determines

that the buy-out contract does not comply with LAD requirements, the Manager shall advise the servicing company of the manner of noncompliance, and if appropriate, permit the parties to seek an exception. If the Manager determines that the buy-out contract complies with the LAD requirements, the Manager shall provide a copy of the contract to the Commissioner.

5. The contract shall contain provisions agreed upon by the servicing company and the buy-out company regarding the buy-out company's Plan renewal business, and the obligations of the buy-out company with respect to the three-year assignment period. The contract may provide that the servicing company shall renew expiring policies which would otherwise be the responsibility of the buy-out company.

   The contract may start on a date which the Plan, the buy-out company and the servicing company specify, and shall run to the end of any calendar year.

   A LAD servicing company may assume additional assignments from the Plan of up to twice its own current quota, so that it may carry three times that volume, without approval of the Commissioner. Additional assignments beyond this limit may be assumed by the servicing company, but only with the prior approval of the Commissioner.

   The Manager shall provide the Committee and Commissioner with a quarterly report of the buy-out contracts in effect.

6. Once the LAD buy-out contract has been approved in accordance with the provisions of this subsection, the Plan shall send all assignments for all insurers in that LAD arrangement to the servicing company. Annually, the Plan shall indicate how much of the LAD servicing company's assigned risk business was needed to fulfill each buy-out company's quota. Any over/under assignment of the insurers in the LAD arrangement shall be attributed to the servicing company.

C. **Distribution Restrictions**

Distribution shall be made on the basis that any applicant within the foregoing definitions eligible for assignment shall be assigned to any insurer with a quota, subject to the following restrictions:

1. No risk shall be assigned to more than one insurer.

2. Household Procedure

a. If automobile insurance coverage is in force on a vehicle owned by a member of the household at the time of application, the applicant shall be assigned to the insurer providing the existing insurance, provided all of the following requirements are met:

(1) the applicant is eligible under the rules of the Plan;

(2) a copy of the Declarations page for the policy providing the automobile insurance coverage on a vehicle owned by a member of the household is submitted with the application;

(3) the surplus provisions in subsection 8.C.3 of this Plan are met.

Any assignment to any insurer under the provisions of the household procedure which is contrary to the above provisions shall be returned to the Plan promptly for reassignment.

b. If a Plan policy is in force on a vehicle(s) owned by a member of the household when an application for another member of the same household is submitted to the Plan, the applicant shall be assigned to the insurer providing coverage through the Plan, provided all of the following requirements are met:

(1) the applicant is eligible under the rules of the Plan

(2) the name of the assigned insurer providing the Plan coverage is included on the application

c. If two or more private passenger applications are submitted simultaneously for vehicles owned by members of the same household, the Plan shall assign the first application and make

assignment(s) of the additional application(s) to the household insurer.

3. Insurer Surplus Provisions

No insurer whose surplus to policyholders is less than $1,500,000 shall be assigned a risk requesting or required by law to carry limits of liability in excess of $50,000/$100,000/$10,000.

4. Reassignment to Prior Insurer

Any applicant who becomes reeligible in accordance with the provisions of this Plan shall be reassigned to the prior insurer, if applicable, in accordance with usual Plan procedures.

5. Insurers Without Voluntary Writings

No assignments shall be made to an insurer which has written no automobile liability insurance other than for Automobile Assigned Risk Plan insureds during the period on which the quotas are based. This provision does not apply to an insurer which withdrew from the state with an existing quota and which subsequently re-enters the California Market.

D. **Quota Adjustment**

AIPSO shall adjust the current assignment quota of each insurer periodically, but not less than quarterly, to reflect the amount of Automobile Assigned Risk Plan premium which was less than or in excess of its proportionate share of the total Automobile Assigned Risk Plan premium. AIPSO shall periodically, but not less than quarterly, notify the Plan of each insurer's adjustment.

Sec. 9. DETERMINATION AND FULFILLMENT OF QUOTAS CALENDAR YEAR [INSERT YEAR] AND PRIOR YEARS

A. Assignment of Applications for Private Passenger Risks

The Plan shall assign applications which are eligible for coverage based on each insurer's quota. An insurer's Private Passenger Nonfleet Liability quota shall reflect that insurer's proportion of Private Passenger Nonfleet Automobile Assigned Risk Plan premiums that its respective Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years bear to the statewide total of the Voluntary Private Passenger Nonfleet Net Direct Written Car Years of all insurers in the state.

$$\text{Market Share} = \frac{\text{Insurer Voluntary PPNF Liability Net Direct Written Car Years}}{\text{Statewide Voluntary PPNF Liability Net Direct Written Car Years}}$$

The Manager shall assign risks in sequence and number

as far as practicable. Nothing in this Section shall be construed to require that assignments be equitably apportioned on a day-to-day basis.

For the purpose of the distribution described above, (1) Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years, and (2) Private Passenger Nonfleet Automobile Assigned Risk Plan Premiums shall be defined as follows:

1. "Voluntary Private Passenger Nonfleet Liability Net Direct Written Car Years" shall be the number of private passenger nonfleet automobile bodily injury liability car years written by the insurer in the state for the calendar year ending December 31 of the second prior year, regardless of the type of automobile insurance policy under which such car years are written, excluding Private Passenger Automobile Assigned Risk Plan Car Years.

2. "Private Passenger Nonfleet Automobile Assigned Risk Plan premiums" shall mean the total of automobile bodily injury and property damage liability, medical payments, and uninsured motorists protection premiums for private passenger nonfleet Automobile Assigned Risk Plan risks.

B. Assignment of Applications for Other Than Private Passenger Risks Not Subject to CAIP

The Plan shall assign applications which are eligible for coverage based on each insurer's quota. An insurer's Other Than Private Passenger quota shall reflect that insurer's proportion of All Other Automobile Assigned Risk Plan premiums that its respective Voluntary All Other Automobile Liability Premiums bear to the statewide total of the Voluntary All Other Automobile Liability premiums of all insurers in the state.

$$\text{Market Share} = \frac{\text{Insurer Voluntary OTPP Liability Premiums}}{\text{Statewide Voluntary OTPP Liability Premiums}}$$

The Manager shall assign risks in sequence and number as far as practicable. Nothing in this Section shall be construed to require that assignments be equitably apportioned on a day-to-day basis.

For the purpose of the distributions described above, (1) Voluntary All Other Automobile Liability Premiums, and (2) All Other

Automobile Assigned Risk Plan Premiums shall be defined as follows:

1. "Voluntary All Other Liability premiums" shall be the automobile liability premiums included on the Exhibit of Premiums and Losses of the company's Annual Statement written by the company in the state during the calendar year ending December 31 of the second prior year minus premiums for the following classes:

   a. private passenger nonfleet automobile bodily injury and property damage liability, medical payments, and protection against uninsured motorists voluntary premium

   b. Automobile Assigned Risk Plan liability premiums (including CAIP liability net direct written premiums of servicing carriers) written

   c. Premiums for death and disability coverage.

   Such premium shall be gross direct premiums, including policy and membership fees less return premium and premiums on policies not taken, without deducting reinsurance ceded, but including premium for other than private passenger excess of loss policies except in the case of an insurer which writes no basic limits automobile liability insurance.

2. "All Other Automobile Assigned Risk Plan premiums" shall mean the total Automobile Assigned Risk Plan premiums written in the state for the following assignable classes:

   a. Miscellaneous nonfleet personal vehicles which shall include the following types that are registered:

      (1) Motor homes, auto homes (self-propelled)

      (2) Campers

      (3) Dune buggies

      (4) All-terrain vehicles

      (5) Antique autos

      (6) Amphibious autos

      (7) Snowmobiles

      (8) Golf carts

      (9) Motorcycles, motorscooters, motorbikes, trail bikes, and mopeds

   b. Named nonowner applicants

   c. Nonfleet light trucks (less than 10,000 lbs. G.V.W.)

C. See Section 8 for determination of private passenger nonfleet liability quotas for [insert year] and subsequent years. Refer to Section 12 for information on CAIP

participation for [insert year] and subsequent and [insert year] and prior years.

Sec. 10. RESERVED FOR FUTURE USE

Sec. 11. COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE ADMINISTRATION

A. **Administration**

The Committee shall utilize appropriate resources to audit the records of any servicing carrier relating to the subject matter of the Plan of Operation and may specify what policies, records, books of account, documents, and related materials it deems necessary to carry out its audit functions. Such material shall be provided by the servicing carrier in the form and with the frequency reasonably required by the Committee or Commissioner.

B. **Servicing Carrier Appointment**

1. Whenever there is a need for a CAIP servicing carrier(s), the Committee shall notify companies subscribing to the Plan of the opportunity to act as a servicing carrier.

2. Any eligible company (as defined in Section 11.D) may request approval to act as a CAIP servicing carrier by submitting the prescribed application to the Committee.

3. The Committee shall recommend approval or disapproval of an insurer's application to act as a servicing carrier in accordance with the eligibility requirements and selection criteria set forth in Sections 11.D and 11.E and the performance standards set forth in Section 54.

4. The servicing carrier appointment shall be for a specified term not to exceed five years.

5. The Committee may recommend termination of a servicing carrier at any time during the term for failure to meet the eligibility requirements in Section 11.D, the selection criteria in Section 11.E, including commitments made during the selection process, or the terms of the Servicing Carrier Agreement, or for failure to comply with the performance standards in Section 54.

6. At least 12 months prior to the expiration of the term of each servicing carrier, the Committee shall determine the appropriate number of servicing carriers pursuant to Section 11.C. If there is a need for the appointment or reappointment of a servicing carrier, the Committee shall then notify insurers subscribing to the Plan and invite eligible companies to apply in accordance with this Section. An existing servicing carrier is not disqualified from reapplying and, if eligible and selected, serving

successive terms. In its discretion, the Committee may automatically renew a servicing carrier's contract, subject to approval of the Commissioner. If not reappointed, the Committee shall notify the existing servicing carrier, six months prior to the expiration of the term, to prepare for withdrawal in accordance with the servicing carrier contract.

7. If a sufficient number of insurers do not apply to act as servicing carriers, the Committee may then negotiate with companies to act as servicing carriers, subject to approval of the Commissioner.

B. **Appropriate Number of Servicing Carriers**

The Committee shall recommend a total number of servicing carriers that fall within the ranges that follow:

CAIP Written Premium	**Servicing Carriers**
$0-$ 20M	2-3
$20M-$ 50M	2-4
$50M-$100M	2-6
$100M-$150M	2-7
150M+	2-8

(M = Million)

The Committee may recommend any number of servicing carriers within the range. It is not required that the Committee recommend the highest number in the range. A number of servicing carriers greater than the maximum may be selected if capacity limitations require additional servicing carriers to service the entire premium volume. A number less than the minimum may be selected if conditions are unfavorable to attract a sufficient number of qualified applicants or if premium volume is insufficient to support more than one servicing carrier.

C. **Servicing Carrier Eligibility**

A servicing carrier shall have the ability to comply with the CAIP performance standards and financial reporting requirements from the date appointed until such time as all the CAIP business is nonrenewed and all claims settled.

1. A servicing carrier applicant shall

   a. be a multiline automobile insurer that is a subscriber to the Plan; and

   b. have statutory capital and surplus of not less than $25,000,000; and

   c. be licensed to write automobile liability and physical damage insurance for all classes of all other business without restriction. Additionally, the insurer shall have been writing all other

automobile business in the U.S.A. for a minimum period of five years in the voluntary market and for a minimum period of three years in the voluntary market in California; and

d. have maintained an A.M. Best's financial rating not less than A- for a continuous three-year period from the most current publication date of an applicant's rating. An applicant not rated by A.M. Best's within the period necessary to comply with this eligibility requirement may demonstrate financial strength through alternative financial rating services at the discretion and satisfaction of the Committee and the Commissioner.

2. The applicant must be willing and able to execute the Servicing Carrier Agreement and comply with its provisions.

D. **Servicing Carrier Selection Criteria**

Once the applicant has met the eligibility requirements in Section 11.D the members of the Committee (excluding any members that are currently, or are applying to be, servicing carriers in California, or that may otherwise have a conflict of interest in connection with the selection process) shall evaluate each applicant based on the four selection guidelines set forth below. Subject to the approval of the Commissioner, the applicant(s) that ranks highest overall shall be appointed.

The weight assigned to each item is within the discretion of the Committee based upon the current needs of the CAIP and reasonable business considerations.

1. Participation in Pooling Mechanism

A servicing carrier should participate in the CAIP operating results. The applicant's participation is measured by its rank in the current edition of AIPSO Company Rankings, Other Than Private Passenger Nonfleet Liability. The higher the insurer's rank, the greater the insurer's participation in the CAIP. All other things being equal, the greater an applicant's participation, the more attractive the applicant is as a servicing carrier.

2. Financial Rating

The applicant shall demonstrate that it has financial strength to meet the ongoing obligations to the CAIP, insureds, claimants, and subscribers of the Plan.

All other things being equal, the greater an applicant's A.M. Best's financial rating, the more attractive the applicant is as a servicing carrier.

3. Insurer Business Plan

Each eligible applicant shall submit a comprehensive insurer business plan which demonstrates that it has, or is willing to establish in California prior to the commencement of its term, sufficient servicing capacity, facilities, and resources (which should include a California-based office where files are underwritten, rated, and customer service staff is available during normal business hours) to provide the best possible levels of performance and service in meeting its obligations to the CAIP, the insureds, regulatory authorities, and subscribers. Applicant interviews may be conducted to clarify statements contained in the business plan. Specifications for an insurer business plan are available from the Plan. The greater the functions maintained in California and the more comprehensive the business plan, the more attractive the applicant is as a servicing carrier.

4. Past Performance and Commitment

The applicant shall demonstrate its ability, desire, and/or willingness to provide the best possible levels of performance and service in meeting its obligations to the CAIP, the insureds, regulatory authorities, and subscribers to the Plan. Each applicant should include, but is not limited to, providing documents supporting past performance, such as a report from a Plan Manager of a pooling mechanism in which the applicant is currently or formerly was a servicing carrier, complaint/appeal records, current Plan residual market compliance audit(s), market conduct exams conducted on involuntary market operations (including direct assigned business). Other relevant and pertinent information shall be provided such as: length of service as a servicing carrier, explanation of resignations and terminations from other pooling mechanisms, and participation within the involuntary market (assisting committees and regulators by attending meetings, contributing and formulating solutions to market issues). The greater the years of experience as a servicing carrier, the greater the amount of available audit information, the more attractive the applicant is as a servicing carrier.

E. **Account Information**

All subscribers to the Plan shall make available to servicing carriers any information they may have regarding eligible applicants (including loss experience).

F. **Servicing Carrier Withdrawal or Termination**

1. In the event that an insurer who is (or formerly was) operating as a servicing carrier exercises its option to withdraw or is terminated as a servicing carrier in accordance with the provisions of the Servicing Carrier Agreement the servicing carrier shall be permitted to nonrenew its CAIP policies at expiration by giving at least 60 days' notice of nonrenewal to the insured and producer prior to the next annual policy expiration date, and

2. The withdrawing servicing carrier shall submit a claims handling plan, to include current claims handling methods and procedures, with its letter or resignation. A terminated servicing carrier shall submit a claims handling plan 60 days prior to the date of termination or as directed by the Committee and the Commissioner. The claims handling plan must include detailed explanations of each of the following:

   a. any management or organizational changes planned or anticipated that will impact the handling of CAIP claims, and

   b. plans for relocating claims servicing offices, and

   c. planned or anticipated changes to methods and standards for handling claims, and

   d. goals, objectives, timetables for reducing the number of open claims, and

   e. planned or anticipated change to the method of handling litigation, e.g., utilizing outside counsel versus house counsel or utilizing outside claims personnel in place of inside referral.

   The Committee shall review the claims handling plan and any subsequent changes thereto. No plan or changes thereto shall be implemented until approved by the Commissioner.

3. The servicing carrier shall immediately advise the Committee and the Commissioner in writing and in advance of any change to its claims handling plan specifically relating to items

2.a, b, c, d, and e above and all other substantive changes to its operation and claims handling plan as submitted to the Committee and the Commissioner.

4. The servicing carrier shall provide the Plan and the Commissioner with loss statements, by policy year, at the time of its resignation, termination, or insolvency and on a quarterly basis thereafter or until such time as the Committee and the Commissioner deem the statements no longer necessary. Loss statements shall be received at the same time as CAIP Quarterly Summary Control reports and include the following minimal loss detail:

   a. claim number

   b. policy number

   c. policy year

   d. accident year

   e. adjusting office

   f. insured name

   g. date of loss

   h. amount of loss—incurred/paid/reserved

   i. historical insurer loss trend and development factors for a minimum of the most recent five years.

5. The submitted data shall be evaluated for trends that may require further review. A final report containing the findings of the evaluation shall be presented to the Committee and the Commissioner on a frequency agreed to by all parties. If questionable or adverse trends are found in the outstanding loss detail provided, the Committee may consider the following options:

   a. request a full claims audit,

   b. in accordance with Section 54.A.11.g., request reimbursement of improper claims payments,

   c. require the servicing carrier to pay for subsequent special audits,

   d. reassign open claims, and responsibility for handling those claims, at the servicing carriers' expense, but not to exceed the loss adjustment expense (LAE) allowance paid for all policy years reassigned.

6. Claim Reassignment Procedure

The servicing carrier has received a claim service fee which contemplated its bringing the claims to proper conclusion. Therefore

a. if the servicing carrier is meeting and is expected to continue to meet reasonable claim handling standards, it should continue the handling of its files to a conclusion.

b. if the servicing carrier has not met reasonable claim standards, or refuses or is unable to further handle the claims, the Committee should consider the following:

(1) Allow the carrier to handle to a conclusion all outstanding claims reported to the servicing carrier prior to its withdrawal or termination. All subsequently reported claims shall be reassigned by the Committee, subject to approval of the Commissioner.

(2) The servicing carrier shall retain only suit files which competent counsel is handling and for which the servicing carrier is meeting reasonable standards. All other claims shall be reassigned by the Committee, subject to approval of the Commissioner.

(3) Place settlement authority limitations on all claims until reassignment by the Committee. Final settlement authority, until reassignment, is to be vested with the Committee.

(4) Unless contrary to or prohibited by law, return all the claim files and notices to the Committee for reassignment as the Committee directs, subject to the approval of the Commissioner.

Unless otherwise directed, the servicing carrier shall service to conclusion all claims (including pending, late reported, and reopened) that occurred prior to the renewal, transfer, or termination of the particular policy involved, subsequent to the effective date of the withdrawal or termination.

The servicing carrier will be subject to all Plan provisions,

contractual obligations, and Plan directives until

a. all claims are closed by payment, closed without payment, or otherwise; or

b. a date to discontinue service is determined.

Reassignment of claims should be made to one servicing carrier, if practical, or to as limited a number of servicing carriers as possible.

If more than one entity is required, the distribution shall be under the direction of the Committee or its designate, subject to approval of the Commissioner.

7. Statistical and Accounting Consideration

The records of all reassigned claims indemnity payments and expenses incurred must, among other required information, be kept statistically separated. The statistical and any other agency shall be notified of the withdrawals and reassignments.

G. **Servicing Carrier Insolvency**

1. Upon receipt of notice of commencement of insolvency, conservation, or rehabilitation proceeding, or if the Committee finds it necessary to terminate a servicing carrier for financial reasons, the Committee may request a claim review of open claims files.

The claim review shall enable the Committee to

a. recommend the appropriate option for further handling of claims,

b. determine the level of work completed on the files,

c. estimate future adjustment expense needed for completion of claim file work.

2. The files shall be subject to periodic review by the Committee or its designate. If a review indicates the servicing carrier fails to meet reasonable claim handling standards, the Committee may then consider other options included but not limited to those in Section 11.G. Servicing carrier Withdrawal or Termination.

Sec. 12. COMMERCIAL AUTOMOBILE INSURANCE PROCEDURE PARTICIPATION PROVISIONS

A. **All Other Liability Writers**

1. CAIP Policy Years [insert date] and Subsequent

For the purpose of participation in the premiums, losses, and expenses

of the Commercial Automobile Insurance Procedure, as outlined in Section 12.B, there shall be one class of business:

"all other" automobile liability.

"Voluntary All Other Automobile Liability Net Direct Written premiums" shall be the automobile liability premium included on the exhibit of premiums and losses of the insurer's annual statement for the calendar year ending December 31 of the second prior year minus premium for the following classes:

a. private passenger and Low Cost Automobile Insurance Program nonfleet automobile bodily injury and property damage liability, medical payments, and protection against uninsured motorists voluntary premium

b. miscellaneous nonfleet liability premiums

c. Automobile Assigned Risk Plan liability premiums (including CAIP liability net direct written premiums of servicing carriers) written

d. premiums for death and disability coverage

e. reinsurance premium assumed.

Such premium shall be gross direct premiums, including policy and membership fees less return premium and premium on policies not taken, without deducting reinsurance ceded, but including premiums for other than private passenger excess of loss policies except in the case of an insurer which writes no basic limits automobile liability insurance.

2. CAIP Policy Years [insert date] and Prior

For the purpose of participation in the premiums, losses, and expenses of the Commercial Automobile Insurance Procedure, as outlined in Section 12.B. there shall be one class of business:

"all other" automobile liability.

"Voluntary All Other Automobile Liability Net Direct Written premiums" shall be the automobile liability premium included on the exhibit of premiums and losses of the insurer's annual statement for the calendar year ending December 31 of the second prior year minus premium for the following classes:

a. private passenger and Low Cost Automobile Insurance Program nonfleet automobile bodily injury liability and property damage liability, medical payments, and protection against uninsured motorists voluntary premium

b. Automobile Assigned Risk Plan liability premiums (including CAIP liability net direct written premiums of servicing carriers) written

c. premiums for death and disability coverage

d. reinsurance premium assumed.

Such premium shall be gross direct premiums, including policy and membership fees less return premium and premiums on policies not taken, without deducting reinsurance ceded, but including premiums for other than private passenger excess of loss policies except in the case of an insurer which writes no basic limits automobile liability insurance.

B. **Member Insurer Participation**

1. At the end of each fiscal period,profit or loss for such class of business shall be determined separately for each policy year. A policy year shall include all policies written to be effective during a calendar year. Profit shall be credited or distributed to each member insurer, and loss shall be charged against each member insurer, in the proportion of the member insurer's Voluntary All Other Automobile Liability Net Direct Written premiums to the comparable direct written statewide total for all member insurers for the calendar year ending December 31 of the second prior year.

Any CAIP all other automobile physical damage and/or personal injury protection experience for out-of-state garage risks shall be combined with CAIP all other automobile bodily injury experience for the purpose of participation.

2. Each member insurer shall be liable for all other costs or expenses not chargeable to the allocated experience of any class of business in the same proportion as described in Section 12.B.1 above.

3. Voluntary All Other Automobile Liability Net Direct Written premium data necessary to comply with the foregoing participation procedures shall be reported to AIPSO in the same manner as described in Section 14.A.

4. For the purpose of such participation as described above, Voluntary All Other Automobile Liability Net Direct Written premiums required to calculate participation ratios shall be as defined in Section 12.A, above.

C. **Responsibilities of the Central Processor**

The Manager shall receive all accounting data from the servicing carrier and balance, review, and distribute this data to all member insurers in accordance with their participation.

Sec. 13. RESERVED FOR FUTURE USE

Sec. 14. GENERAL PROVISIONS

A. **Reporting of Statistical Data**

All of the data necessary to comply with the distribution procedures shall be reported to AIPSO by each insurer subscribing to this Plan or by the statistical agencies designated by the insurer. Each insurer agrees to permit its statistical agent to release this data to AIPSO and agrees that its statistical agent shall be permitted to furnish AIPSO with statements of its Automobile Assigned Risk Plan, and Voluntary Private Passenger Nonfleet and Other than Private Passenger net direct automobile data in accordance with the annual AIPSO Statistical Program.

It is the responsibility of each insurer to ensure that the above statistical reporting requirements are met if they furnish the data directly of if they utilize a designated statistical agency. Any insurer or statistical agent that does not materially comply with the above requirements shall be referred to the Advisory Committee for remedial action, and if deemed necessary, the Department of Insurance.

Every insurer shall keep records of its experience, including the information required by California law, in such a manner as to enable it to report as required by the Commissioner and/or Manager. Each insurer shall make any reports as required by the Commissioner and/or Manager.

B. **Corrections to Quota/Participation Data**

Corrections and adjustments to a given calendar year's voluntary base data shall be accepted for a period of two and one-half years from the close of the calendar year.

Corrections and adjustments to a given calendar year's Automobile Assigned Risk Plan data shall be accepted for a period of one and one-half years from the close of the calendar year.

Note: For example, insurers may submit corrections to calendar year 1995 voluntary base data until June 30, 1998. Corrections to calendar year 1995 Automobile Assigned Risk Plan data may be submitted by insurers until June 30, 1997.

C. **Assignments to New or Withdrawing Insurers**

In making the calculations required to determine quotas, the Manager shall make adjustments made necessary by the admission of new insurers into the liability field or by the withdrawal of insurers, on a fair and equitable basis, but these adjustments need not be made with absolute mathematical certainty.

D. **Insurers Discontinuing Writing**

1. In the event an insurer discontinues writing automobile liability insurance in this state but retains its

license to write that business, it shall continue to pay assessments and receive assignments until its quota or quotas established by its writings prior to discontinuance of business has or have been filled.

2. However, if the automobile liability business of an insurer discontinuing the writing of that business in this state has been transferred to or reinsured by another insurer, the latter shall receive and assume the assignments and assessments of the insurer discontinuing business, as established by its writings prior to the transfer or agreement of reinsurance, until its quota or quotas has or have been filled, unless another insurer is allowed to assume those obligations.

E. **Insurers No Longer Licensed**

1. An insurer that is no longer licensed to write automobile liability insurance in this state shall have its Plan business treated in the same manner as its voluntary business and shall not receive new Plan assignments. The run-off of existing Plan business shall be conducted in an orderly manner with assigned risk policies nonrenewed upon the next anniversary date.

2. An insurer that elects to surrender its license or has its license to do business in the state revoked shall comply with the following requirements:

(a) If an insurer elects to leave this state by surrendering its license to write automobile insurance, it must submit to the Committee, as a condition precedent to the surrender of its license, a plan that

(1) disposes of the insurer's quota of Plan assignments established by its voluntary writings, and

(2) provides for the handling of its outstanding assigned risk policies, including payment of claims, by appropriate financial arrangements or reinsurance agreements.

The Committee shall evaluate the plan that is submitted and shall advise the Commissioner as to whether or not it recommends acceptance or rejection of the plan by the Commissioner.

(b) In the event an insurer's license to do business in this state is revoked by the Commissioner, the insurer shall submit to the Committee a plan that

(1) disposes of the insurer's quota of Plan assignments established by its voluntary writings, and

(2) provides for the handling of its outstanding assigned risk policies, including payment of claims, by appropriate financial arrangements or reinsurance agreements.

The Committee shall evaluate the plan that is submitted and shall advise the Commissioner as to whether or not it recommends acceptance or rejection of the plan by the Commissioner.

If all insurers in a group are under the same ownership and management, or a group elects to be treated as a single insurer and an insurer in the group is no longer licensed, that insurer shall comply with the provisions of this Section.

F. **Notification to Commissioner of Resumption of Bodily Injury and Property Damage Business**

Any insurer which after notification to the Commissioner pursuant to Section E. or F. above resumes the execution of new or renewal contracts of automobile bodily injury liability insurance shall immediately notify the Commissioner of such resumption.

G. **Notification by Commissioner to Manager**

The Commissioner shall promptly inform the Manager of any notifications received pursuant to this section.

H. **Assumption of Obligations by Reinsurers.**

If any insurer is discontinuing writing or is no longer licensed and if, in connection therewith its automobile liability insurance is reinsured and assumed, or is in any other manner acquired by another insurer, the reinsurer or acquiring insurer shall be an admitted insurer and shall assume and discharge all obligations of the insurer under the Plan. If there is more than one reinsurer or insurer, the

obligations, if not proportioned to them by contract, shall be proportioned in accordance with the bodily injury liability insurance reinsured or assumed.

I. **Insurers in Financial Difficulty**

1. New Plan assignments to a participating insurer may be suspended or a participating insurer may be relieved of its obligation to renew existing assigned risk policies at expiration when a valid order of suspension is issued by the Commissioner and the suspension of assignments or policy renewals is approved by the Commissioner. Prior to the approval of a suspension of assignments or policy renewals, the Committee shall advise the Commissioner as to whether or not it recommends the approval or denial of the suspension.

2. If an insurer granted relief in accordance with section (J)(1) above resumes writing automobile insurance business in this state, its quota shall reflect the Plan assignments it would have received and the assigned risk renewal policies it would have issued during the period of suspension. The required assignment adjustment shall be spread over a period of three or more years, as determined by the Commissioner. Prior to determining this assignment adjustment, the Committee shall advise the Commissioner as to whether or not it recommends approval or denial of the adjustment.

3. The adjustment of the insurer's Plan quota shall be a percentage of the insurer's under assignment as determined by the Commissioner. Prior to determining this adjustment, the Committee shall advise the Commissioner as to whether or not it recommends approval or denial of the adjustment. After the approved period of adjustment has expired, the insurer's normal quota will resume unless the insurer shows good cause to and receives the approval from the

Commissioner for extension of the adjustment period. Prior to this approval, the Committee shall advise the Commissioner as to whether or not it recommends approval or denial of this extension.

J. **Insolvent Insurers**

In the event proceedings have been initiated by the Commissioner to have an insurer declared insolvent, and a receiver or liquidator has been appointed, the Plan shall reimburse any insured of that insurer for the unearned premium on any assigned risk policy then in force, upon submission of satisfactory evidence from the insured that the policy was in force at the time of the declaration of insolvency and that the requisite premium had been paid.

The amount expended by the Plan to remit unearned premium to insureds shall be deemed a cost of the administration of the Plan and shall be apportioned as provided in this Plan. The Plan shall be subrogated in the liquidation proceedings to the right of reimbursement of all insureds to whom unearned premium has been remitted. In the event that the insurer is subsequently found by the court not to be insolvent, the proceedings are dismissed, and the receiver or liquidator has been discharged, the insurer shall be assessed by the Plan for the total amount expended by the Plan for return of unearned premiums.

K. **Merger and Consolidation of Insurer**

In the event of a merger or consolidation of insurers, the total business writings of all parties to the merger or consolidation shall be used to determine assessments, assignments, and CAIP participation. The continuing insurer shall be responsible for CAIP participation of the merged or consolidated insurer for CAIP policy year experience up to a maximum of 11 years. However, the continuing insurer may be relieved from such obligations if another insurer has agreed, in a manner satisfactory to the Committee and the Commissioner, to assume such obligations.

L. **CAIP Participation of Insurers Discontinuing Writing or No Longer Licensed in the State**

An insurer that is discontinuing writing or that is no longer licensed to write automobile insurance in this state shall participate in the operating results of CAIP for those policy years for which the insurer reported two year prior voluntary base data. Such insurers shall participate for each policy year

of CAIP experience to a maximum of 11 years.

When all insurers in a group are under the same ownership and management or a group elects to be treated as a single insurer, and an insurer in the group discontinues writing or is no longer licensed, the remaining licensed insurers shall not adjust voluntary base data to exclude voluntary all other premium from the insurer no longer licensed. Any CAIP participation statements for the insurer that has discontinued writing or is no longer licensed shall be the responsibility of the remaining insurers in the group. If an insurer is licensed for any part of a given calendar year, the insurer shall be considered a member of the group for the entire year.

M. **Assumption of Policy Obligations**

If any insurer becomes exempt from assignments pursuant to California law, and if, in connection therewith its automobile liability insurance was reinsured and assumed, or in any other manner acquired by another insurer, the reinsurer or acquiring insurer shall be an admitted insurer and shall assume and discharge all obligations of the exempt insurer under the Plan. If there is more than one reinsurer or insurer, these obligations, if not proportioned between them by contract, shall be proportioned in accordance with the bodily injury liability insurance reinsured or assumed.

N. **Insurer Failure to Subscribe to Plan**

If an insurer admitted to transact liability insurance fails to subscribe to the Plan, or to any amendments thereto, the Commissioner shall give 10 days' written notice to the insurer to subscribe. If the insurer fails to comply with such notice, the Commissioner may, after hearing upon notice, suspend the certificate of authority of the insurer to transact liability insurance in this state until the insurer subscribes. Proceedings under this Section shall be conducted in accordance with Chapter 5, Part 1, Division 3, Title 2 of the Government Code.

It is the responsibility of each Plan subscriber that is licensed and writing voluntary automobile liability insurance to report data necessary to comply with the Plan procedures to AIPSO or to the statistical agency designated by insurer. Failure to report such data shall be brought to the attention of the Manager. If the insurer fails to respond to the Manager's request to report the data, the Manager shall refer the matter to the Commissioner.

O. **Negotiation of Settlement of Balances with Insurers in Rehabilitation**

On behalf of the Plan, AIPSO shall negotiate the best offer or

settlement of balances due for assessments and CAIP participation and shall protect the financial interest of the Plan.

Sec. 15. RATE DETERMINATION

A. General

1. All risks placed through the Plan shall be subject to the approved rules, rates, surcharges, minimum premiums, and classifications filed on behalf of all insurers subscribing to the Plan by AIPSO.

2. For the purposes of such filings, each insurer subscribing to this Plan is a subscriber to AIPSO and authorizes the Commissioner to accept such filings on its behalf.

3. All of the statistical data required to develop appropriate rates shall be reported to AIPSO by each insurer or by the statistical agencies designated by such insurer. Each insurer agrees to permit its statistical agent to release such data to AIPSO and agrees that its statistical agent shall be permitted to furnish AIPSO with statements of its Automobile Insurance Plan experience. All statistical data shall be provided in accordance with the annual AIPSO Statistical Program.

   It is the responsibility of each insurer to ensure that the above statistical reporting requirements are met if they furnish the data directly or if they utilize a designated statistical agency. Any insurer or statistical agent that does not materially comply with the above requirements shall be referred to the Advisory Committee for remedial action, and if deemed necessary, the Department of Insurance.

4. The Committee shall review the rates annually and recommend to the Commissioner any necessary rate revisions. If the Committee determines that no rate revision is indicated, it shall so notify the Commissioner in writing.

B. Resident and Nonresident Rate Determination

For the purposes of this Section, the word “Plan” shall mean any automobile residual market mechanism having a separate residual market rate.

This does not include

- Massachusetts
- Maryland
- North Carolina—North Carolina Reinsurance Facility
- South Carolina—South Carolina Reinsurance Facility

1. State of Principal Garaging—Plan State

   A vehicle garaged in another state shall be subject to the rates, additional charges, rating rules, and policy forms applicable under the Plan of the state of principal garaging. Such risks shall be assigned to insurers licensed to write and writing automobile liability insurance in that state.

2. State of Principal Garaging—Non-Plan State

   When a vehicle is principally garaged in another state which does not provide rates, rating rules, and policy forms to afford insurance under an Automobile Assigned Risk Plan, such risks shall be subject to whichever of the following will produce the higher dollar amount:

   a. The rates applicable to the California territory determined by the address shown on the vehicle registration, and otherwise subject to all of the provisions of this Plan, or

   b. The rules, rates, minimum premiums, classifications in force, and rating plans applicable to the insurer for voluntary business in the state and territory where the vehicle is principally garaged, and otherwise subject to all of the provisions of this Plan.

   When the applicant is a Mexican citizen who works in California, the applicable rate shall be that of the location where the applicant works, and otherwise subject to all of the provisions of this Plan.

C. **Surcharge for Extra Hazardous Risks**

If the hazard of the applicant or insured is determined to be greater than that contemplated by the rate normally applicable, the insurer shall supply AIPSO with a recommendation for the additional charge along with the necessary information for the determination of the increase in such rate. The insurer shall also forward a copy of the request to the Plan. AIPSO shall determine the additional charge due to the exposure of the risk and advise the insurer and the Plan. If an objection is not received from the insurer within 15 days, AIPSO shall submit a filing to the Insurance Department's Rate Filing Bureau in San Francisco for approval by the Commissioner. An approved increase in such rate shall be deemed to include any applicable additional charges.

Sec. 16. RIGHT OF APPEAL

A. Any applicant, producer, insured, or insurer who is affected by any act, ruling, decision, or order of an insurer, the Manager, or the Committee, and believes that the act, ruling, decision, or order is in conflict with or not authorized by law may request review by the Appeals Subcommittee, which shall consist of a representative of the Commissioner and three members of the Advisory Committee, comprised of one consumer representative, one producer representative, and one insurer representative. Except for good cause shown, appeals shall be filed within 90 days of the discovery of the act, ruling, decision, or order. No insurer shall file an appeal for the purpose of resolving a fraud investigation.

B. The request shall be in writing, shall be submitted to the Manager, shall set forth all grounds for the appeal, and shall disclose all material facts pertinent to the appeal, including whether or not judicial or administrative proceedings are pending relevant to the appeal. The Manger shall docket appeals upon receipt and forward a copy of the submission to any party to the appeal with a letter requiring a response within 15 days. The Manager shall forward a copy of the response to the appellant or the appellant's attorney or other representative with a letter instructing that an optional reply may be filed within 10 days. If such a reply is submitted, the Manager shall send a copy to each other party to the appeal, and concurrently supply each Appeals Subcommittee member with copies of all submissions of each party to the appeal.

C. If any member of the Appeals Subcommittee or the Advisory Committee is an officer, employee, or other representative of an insurer, producer, or other entity which is a party to the appeal, he or she shall not participate in the appeal.

D. The Appeals Subcommittee shall examine the facts and circumstances surrounding the situation which gave rise to the appeal, review all written documentation, and consider all written statements, arguments, and contentions submitted by any party.

E. Following its examination and review, the Appeals Subcommittee shall make a written recommendation to the Committee, which shall include the basis for its recommendation.

The Committee may accept the Appeals Subcommittee's recommendation or make a different recommendation, in either case forwarding the Committee's recommendation to the Commissioner. Alternatively, the Committee may refer an appeal to the Appeals Subcommittee for further consideration. All parties to the appeal shall be advised of the Committee's action.

The recommendation to the Commissioner shall state how the Appeals Subcommittee or the Committee resolved all disputes of material facts and shall set forth any legal, logical, equitable, or practical

conclusions which underlie the recommendation. The recommendation shall also include a statement that any party dissatisfied with the Committee's recommendation may submit statements or arguments, in writing, to the Manager within 15 days of the date of mailing of the recommendation. The Manager shall forward the statements or arguments to the Commissioner. If no party expresses dissatisfaction within 30 days and absent a contrary order from the Commissioner, the Committee's recommendation will be adopted as the order of the Commissioner. Any additional information submitted in reply to any opposition to the Committee's recommendation must be received by the Commissioner within 25 days of the date of mailing of the recommendation. Copies of any such opposition statement or arguments or additional information submitted to the Commissioner shall be simultaneously sent to all other parties to the appeal.

F. The Commissioner shall review all written statements received, as well as the file and recommended disposition. The Commissioner may, at his or her sole discretion and with notice to the parties and the Manager, conduct a hearing on the appeal. The Commissioner may accept, reject, or modify the written recommendation of the Committee. The Commissioner's decision on the appeal constitutes an administrative remedy binding on all parties as to the issues decided by the decision, subject to appropriate judicial review. Except as to claims beyond the Commissioner's jurisdiction, disputes concerning assignments, coverages, effective dates, or premium shall be decided by the Commissioner before any party seeks a judicial determination.

G. No party to an appeal shall make a complaint to the Department of Insurance Consumer Services Division concerning the matters at issue in the appeal, and any party whose complaint to the Department of Insurance Consumer Services Division has been considered and closed on the merits shall be deemed to have exhausted the appeal rights pursuant to this Section.

H. If an insurer claims an appellant owes earned premium and the appellant provides information reasonably promptly (ordinarily within five days of a written request) showing that the appellant disputes the claim in good faith, the insurer shall be required to afford coverage pending the resolution of the dispute by the Commissioner, unless the Commissioner by order or written directive relieves the insurer of this obligation. When an insurer is affording coverage pending resolution, the Appeals Subcommittee and the Committee shall attempt to resolve the appeal and to forward the Committee's recommendation to the Commissioner within 30 days.

I. No insurer shall be relieved from assignments during the pendency of an appeal, unless otherwise ordered by the Commissioner for good cause shown.

Sec. 17. INDEMNIFICATION

A. Each individual member of the Committee or any subcommittee of the Committee, whether or not then acting in that capacity, shall be indemnified by the Plan against all costs and expenses reasonably incurred by or imposed upon that individual in connection with or resulting from any action, suit, or proceeding to which that individual may be made a party by reason of having served on any committee or subcommittee, unless the Plan can show by clear and convincing evidence that

1. liability was due to willful misconduct or bad faith on the part of the member in the performance of his or her duties or obligations to the Plan; or

2. with respect to criminal actions or proceedings, the member had reasonable cause to believe that his or her conduct was unlawful or acted with reckless disregard of the conduct's unlawfulness.

This right to indemnity shall include reimbursement of the expenses paid in settling any action, suit, or proceeding, provided the prior approval of any settlement is first obtained from the Committee Indemnity shall not be provided for any exemplary or punitive damages, or any fine, penalty, or for any action described in Insurance Code section 533.5.

B. Any individual who shall seek indemnification pursuant to this Section shall promptly notify the Manager of any action, suit, or proceeding, or any threat thereof, in writing, at the Manager's office. The Manager shall promptly communicate receipt of any notification to the Committee. The Committee shall have the right to, and may, at its own cost, defend or otherwise dispose of any pending or threatened action, suit, or proceeding, and shall promptly advise the individual whether the Committee elects to defend or otherwise dispose of the matter itself.

C. The cost and expense of fulfilling the obligations under this Section shall be apportioned among all insurers in accordance with the basis for apportionment as provided by Section 4.

Sec. 18. RESERVED FOR FUTURE USE

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

PRODUCER CERTIFICATION AND PERFORMANCE STANDARDS PART

NOTES

Sec. 19. PRODUCER CERTIFICATION

A. Application for Certification

1. Broker-agents licensed to transact automobile insurance business in California may apply to the Manager to become certified producers and eligible to submit applications to the Plan and the California Low Cost Automobile Insurance ("LCA") Program on behalf of their clients. An application for certification shall include a copy of the broker-agent's tax identification number and his or her California broker-agent license.

2. Only certified producers may obtain forms from or submit applications to the Plan or the LCA.

3. Within 10 working days of receipt, the Manager shall approve any application for certification that meets all requirements. No fee shall be charged broker-agents in connection with the certification process.

4. Within 120 days after certification, broker-agents shall attend one of the producer seminars regularly presented by the Plan.

5. A copy of all renewal broker-agent licenses shall be submitted to the Manager within 60 days of the renewal date.

B. Relationship of Certified Producer to the Plan, the LCA, or Assigned Insurers

Certification shall not create an agency relationship between the Plan, the LCA, or any assigned insurer and the certified producer. All actions of a producer related to the Plan or the LCA are conducted on behalf of the applicant/insured and not on behalf of the Plan or the LCA. In so far as the producer is acting as an agent of any party in connection with any actions related to this Plan or the LCA, the producer shall be deemed to be the agent of the applicant/insured and not the agent of the Plan or the LCA and/or assigned insurer or servicing carrier.

However, the Plan shall assign any eligible applicant, and the assigned insurer or servicing carrier shall issue or renew a policy if after making good faith efforts it is able to obtain any missing information needed to do so, notwithstanding any failure by a certified producer to remit premiums, premium deposits, or premium installments actually paid to the producer by an applicant or any person already insured through the Plan or the LCA.

C. Producer Performance Standards

Producers shall meet the requirements set forth in the performance standards of the following:

1. California Automobile Assigned Risk Plan Manual

Section 20 for the servicing of Plan business, and

2. California Low Cost Automobile Insurance Program Manual Section 20 for the servicing of LCA business.

D. **Violations of Producer Performance Standards**

Any interested person may report violations of the CAARP and/or LCA producer performance standards to the Manager by contacting the Plan Office in San Francisco. The Manager shall maintain a record of each observed violation of the producer performance standards set forth in CAARP Manual Section 20 and LCA Manual Section 20 which are identified by the Plan Office, and insurers and servicing carriers shall report each instance of an observed violation of the producer performance standards to the Manager who shall determine if each report is valid pursuant to Section 20. The Manager shall maintain a record of the violations for three years.

1. Assessing Producer's Performance

a. The Manager shall assess each producer's performance regularly to determine whether the number of violations exceeds 10 percent of the total number of Plan and LCA applications combined submitted in any one month and at least three violations within that month. Notwithstanding the procedures set forth in Section 20.D.2 through 3 below, nothing in this Section shall prohibit the Manager from referring serious violations of the CAARP and LCA producer performance standards directly to the Department of Insurance for investigation as well as to the Producer Peer Review Subcommittee.

b. No more than one violation of the standards listed in CAARP Manual and LCA Manual Sections 20.A.1, 2, 3, and 6 shall be assessed per application.

c. When the Manager receives a complaint from an applicant, another producer, an insured or an insurer, which alleges premium diversion or premium evasion to the detriment of the Plan or the LCA on a producer's part, and determines the complaint appropriate, the Manager will forward it to the members of the Producer Peer Review Subcommittee. They will determine if the allegation is substantiated and if there was a deliberate attempt to avoid being rated properly. The Producer Peer Review Subcommittee will forward a recommendation to the Advisory Committee for action.

If the Advisory Committee determines from the evidence that a producer has engaged either in premium diversion or premium evasion to the detriment of the Plan of the LCA with regard to the necessary information to rate and write a policy, loss history or any other information material to the risk, the Plan will notify the Commissioner of Insurance immediately for such action as the Commissioner deems appropriate.

2. Notifications

If the producer's performance in the latest calendar month exceeds the 10 percent standard applicable to a combined total number of applications for Plan and LCA risks set forth above, the Manager shall take the following actions:

a. First Notification Letter

If the producer exceeds the standard for two consecutive months, the Manager shall issue a letter by mail with proof of mailing to the producer informing the producer of the failure to comply with the producer performance standards and requesting the producer to institute corrective measures.

b. Second Notification Letter

The Manager shall issue a second letter by mail with proof of mailing if the producer exceeds the standard within the following 90-day period. This letter shall inform the producer of a subsequent failure to comply with the producer performance standards and request the producer to institute corrective measures.

c. Third Notification Letter

The Manager shall issue a third letter by certified mail should the producer exceed the standard within 90 days following receipt of the second letter. This letter shall inform the producer of a subsequent failure to comply with the producer performance standards and advise that the matter will be referred to the Committee's Producer Peer Review Subcommittee for investigation.

The Manager shall immediately send a copy of each of the above referenced letters to the Commissioner as they are issued and shall monthly send a report to the Commissioner and the Committee listing, for each of the above referenced letters sent, the name of the producer, the number of observed violations, the number of letters that have

been sent, and summarizing any responses.

3. Investigation

After sending a third notification letter, the Manager shall refer the producer's records to the Producer Peer Review Subcommittee for investigation in accordance with the procedure in Section 19.E.

E. **Investigation of Producer's Performance**

After sending a third notification letter in accordance with the procedure for violation of producer performance standards shown in CAARP Manual Section 19, the Manager shall refer the producer's records to the Producer Peer Review Subcommittee, which shall consist of five certified producers, for investigation.

The producer has 30 days from the date of issuance of the third notification letter to submit written comments to the subcommittee regarding the complaints. On good cause shown the subcommittee may grant the producer an extension of up to 15 days to submit such comments.

Following review of any written submissions, the subcommittee shall submit a report with a recommendation to the Advisory Committee, that no action be taken, that the producer's certification be suspended for a specified period not to exceed one year and with such conditions as the Advisory Committee may impose, including without limitation education requirements, restitution of funds or correction of errors, or that the producer's certification be revoked. The Advisory Committee shall review the subcommittee's recommendation, make its decision, serve by mail or facsimile a copy of its decision on the producer, and forward its decision together with the subcommittee's recommendation to the Commissioner. The decision shall provide for an effective date no sooner than 30 days after such service.

The proceedings of the Peer Review Subcommittee shall be confidential except with respect to the Advisory Committee, which shall in turn review such proceedings in executive session and forward its decision and the subcommittee's recommendation on a confidential basis, within the meaning of California law, to the Commissioner.

F. **Appeal to the Commissioner**

A producer aggrieved by the decision of the Committee may appeal to the Commissioner by filing a notice of appeal with the Manager before the decision becomes effective. The filing of a timely notice of appeal shall stay the effectiveness of the decision pending review, unless the Advisory Committee decision provides otherwise, in which case the producer may include in the notice of appeal a request that the Commissioner order such a stay.

A notice of appeal shall be in writing, shall set forth all grounds for the appeal, and shall disclose all material facts pertinent to the appeal, including whether or not litigation or administrative action is pending relevant to the appeal. The Manager shall docket the appeal upon receipt, supply copies of all documents submitted in support of the appeal, and then forward the appeal file to the Department of Insurance, Rate Enforcement Bureau, for further proceedings.

The Commissioner may affirm, modify, or vacate the decision of the Advisory Committee, and in making such decision may consider the recommendation of the Producer Peer Review Subcommittee. Upon vacating or modifying a decision of the Advisory Committee, the Commissioner may remand for further proceedings by the Advisory Committee, which may in its sole discretion direct the Producer Peer Review Subcommittee to conduct further review.

1. Unless the Commissioner decides without the need for a hearing that the producer should suffer no adverse action, the Commissioner shall notify the producer that he or she may submit a request for hearing in writing, to the Commissioner in care of the Department of Insurance, Rate Enforcement Bureau. Any request for hearing shall be received by the Commissioner within 20 days of the date of mailing of the notification to the producer, and the hearing shall be scheduled within 30 days of receipt of the request for hearing.

2. After a hearing, if one is requested, the Commissioner may revoke a producer's certification or suspend certification for a period of up to one year, with or without conditions, or may determine that neither action is merited.

3. The Commissioner shall immediately notify the producer and the Manager in writing of the Commissioner's decision, including the reasons for the decision. The Manager shall then notify each member of the Advisory Committee and the subcommittee. The Commissioner's decision shall be binding on all affected persons, subject to appropriate judicial review.

G. **Fair Conduct of Hearings**

A producer's written submissions to the Peer Review Subcommittee may be made by an attorney on his/her behalf. A producer may but is not required to be represented by an attorney at any hearing convened by the Commissioner.

Upon request, the producer shall be provided, at least 10 days before the producer's written comments are due to be submitted to the subcommittee and at least 10 days before any hearing convened by the

Commissioner, with all relevant nonprivileged documents in the possession of the Plan or of any insurer which has filed a producer complaint, relating directly or indirectly to reports that the producer's conduct or service of Plan or LCA business has been inadequate or faulty, unless the Manager, insurer, subcommittee, Advisory Committee, or Commissioner has reason to believe that providing particular documents shall facilitate fraud, misconduct, or the concealment of evidence.

H. **Plan or LCA Applications Submitted by Producer Whose Certification Is Suspended or Revoked or by a Broker-Agent Who Has Not Been Certified**

A producer or broker-agent whose certification has been suspended or revoked shall not submit new Plan or LCA applications and shall not be entitled to any commission on new Plan or LCA assignments.

A producer whose certification has been revoked shall not be entitled to any commission on Plan or LCA renewal policies or other transactions after the period specified in the fourth paragraph, below.

Should any producer whose certification has been suspended or revoked continue to submit new applications for Plan or LCA business to the Plan, or should new applications for Plan or LCA business be submitted by a producer who has never been certified, the Manager shall assign those applications to insurers as required by the Plan rules, notifying the assigned insurer that the broker-agent is not certified. In all such cases, the producer or broker-agent shall not be recognized as the producer of record under any such assignment, and shall not be entitled to any commissions under policies written for those assignments.

In the event a producer's certification is revoked, within 30 days of notification by the Plan of the decertification, the assigned insurer shall send notice addressed to each named Plan or LCA insured for whom that producer was the producer of record, informing the insured(s) of the revocation. The insurer shall also inform the named insured of the insured's option to choose a new producer or to deal directly with the insurer.

Nothing in these regulations shall be construed to permit or to require the withholding of any commissions due a producer on any Plan or LCA policies issued less than 30 days after the date of service of either the decision revoking or suspending the producer's certification, or an order by the Commissioner after an appeal if one is taken. Service may be made by facsimile ("fax"), by personal delivery to the producer or the producer's attorney, or by mail. The 30-day period is extended by five days if service is by mail. CAARP shall establish procedures to inform insurers having Plan or LCA policies in force from producers who are not certified or whose certification has been revoked of the first policy issuance date as specified in this

paragraph for which commissions need not be paid.

I. **Eligibility to Reapply for CAARP Certification**

A producer whose certification has been revoked shall not be eligible to reapply for certification until two years from the effective date of the revocation of certification, unless a different time period is set forth in the Commissioner's decision. The subcommittee shall review an application for certification submitted by a producer whose certification was revoked. The subcommittee shall make a recommendation to the Committee regarding such certification. The Committee may accept or reject the recommendation of the subcommittee.

A producer who has had CAARP or LCA violations, whose license is suspended or revoked by the Department of Insurance or surrendered voluntarily, shall be prohibited from reapplying to the Plan upon restoration of such license until such time as the producer's record has been reviewed by the Peer Review Subcommittee.

A producer whose certification has been revoked shall not be eligible to reapply for certification until the producer has attended one of the producer seminars regularly presented by the Plan.

A producer whose certification has been suspended shall automatically be reinstated effective as of the calendar day following the termination date of the period of suspension, but only if all conditions of the suspension order have been satisfied.

In the event a producer whose certification has been revoked is later certified, the Manager shall, within 10 calendar days, so advise each insurer assigned to any Plan or LCA application submitted by the producer. Each insurer shall, within 15 days of receipt of the notification from the Manager, notify each assigned applicant whose Plan or LCA coverage is still in effect that the producer is now certified.

J. **Breach of the Terms and Conditions of Suspension/Revocation**

If a producer who has been suspended/revoked shall, during the period of suspension/revocation

1. transact business on behalf of a Plan or LCA applicant, either with regard to new business (if suspended or revoked) or existing policies (if revoked); or

2. submit Plan or LCA applications to the Plan which are transmitted after the effective date of suspension/revocation then such producer shall be ineligible to reapply for certification, or in the case of suspended producers, be ineligible to be reinstated automatically, until 60 days after the end of the initial suspension/revocation period.

Sec. 20. PERFORMANCE STANDARDS FOR PRODUCERS WRITING CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN RISKS

These producer performance standards set forth the specific requirements that producers shall meet in the servicing of Plan business. Each failure to comply with one of these producer performance standards shall be considered one violation of the producer performance standards, except that no more than one violation of the standards listed in Sections 20.A.1, 2, 3, and 6 below shall be assessed per application.

A. **Original Applications**

1. Each application for insurance shall be materially complete and shall include

   a. All necessary information to rate and underwrite the policy, prepare a bill, and make any required financial responsibility or motor vehicle filings.

   b. The producer's correct name, address, tax identification or social security number, and license number.

   c. The signatures of the applicant and producer, including the date and time signed.

2. Premiums for desired coverages shall be individually listed and the gross appropriate deposit premium shall be submitted with the application in accordance with Plan rules. The producer shall not be penalized for miscalculation of the premium or deposit due to inaccurate information provided to the producer by the applicant or as a result of a good faith mistake, inadvertence, or excusable neglect absent a pattern of errors or evidence of willful miscalculation.

3. Each application shall be accompanied by a photocopy of the valid driver's license of the applicant and the principal operator and of the current registration for each vehicle on the application. Where the driver's license is unavailable because it has been suspended or revoked, the application shall clearly reflect the driver's license number.

4. Producers shall not issue binders or identification cards as proof of effective date of coverage. The producer shall provide the applicant with a copy of the application, upon request.

5. When an applicant who has received an electronic effective date decides not to accept the coverage through the Plan before the original application has been submitted to the Manager, the producer shall send the Electronic Effective Date Retraction Request Form,

together with the original application to the Manager within four days after the applicant decides not to accept the coverage through the Plan, but a producer shall not be assessed for such violations unless the producer has failed to return such forms at least three times in six months.

6. Each application shall be submitted to the Plan in accordance with California insurance law.

B. **Renewals**

The renewal premium shall be submitted gross to the insurer or servicing carrier in accordance with Sections 26 and 44.

The producer shall immediately remit all renewals payments received from insureds by the due date.

C. **Policy Change Request**

If the producer receives a policy change request, along with the appropriate deposit, from the insured, the producer shall notify the insurer or servicing carrier, in writing, of the policy change request within three working days of receipt of the request from the insured. Requests for changes shall be accurate, legible, and accompanied by an appropriate deposit, where applicable, in accordance with Plan rules. Policy change requests shall be accompanied by an appropriate deposit equal to 25% of the estimated annual premium, or the full pro rata premium for the remainder of the policy period, whichever is less.

The following applies to CAIP Risk Only:

A Policy Change Request not accompanied by the above deposit or submitted with an inadequate deposit shall not be processed by the servicing carrier and no coverage shall be in effect, except as otherwise provided in the policy contract. Policy Change Requests submitted by facsimile shall not become effective until the servicing carrier receives the additional premium required for changes resulting in additional premium. Failure to submit a deposit shall warrant immediate referral to the Peer Review Subcommittee.

D. **Return Commission**

Return of each uncontested unearned commission shall be paid by the producer to the insurer or servicing carrier within 30 days from the date the producer receives the insurer's or servicing carrier's notice that such commission is due.

E. **Payments**

The producer shall issue a receipt to the applicant for all payments received from applicants or insureds and shall promptly remit each payment to the Plan or the insurer or servicing carrier if the Plan has assigned an insurer or servicing carrier.

The producer shall submit no check to the Plan or the assigned insurer or servicing carrier for which the producer's account on which the check is drawn lacks funds sufficient

to enable the financial institution to honor the check.

F. **Claims**

Within one working day after an insured reports an accident or claim to the producer, the producer shall report to the insurer or servicing carrier all relevant information available to the producer. The report may be made by facsimile transmission or by telephone. If the insurer or servicing carrier is not reasonably accessible by either facsimile or telephone, mailing the information to the insurer or servicing carrier within one working day complies with this Plan Section.

G. **Maintenance of Records**

The producer shall maintain all records required by California insurance law, including records of all applications and policy change requests completed and payments received from insureds. Such records shall also include a mail log, check copies, a check register, receipts, and any other records created contemporaneously with the application and policy change request. The producer of record shall permit inspection or copying of those records by the Commissioner, the Manager, or the assigned insurer or servicing carrier in instances where the effective date set forth in the application or policy change request is contested by the insured, insurer or servicing carrier. Failure to permit inspection or photocopying of records pertinent to an effective date requested by the producer shall be considered a violation of these performance standards.

Appropriate records of all telephone calls placed under the Electronic Effective Date Procedure shall be maintained by the producer of record. Such records shall include a log recording all of the following information:

1. the name of the applicant requesting coverage,

2. the binding reference number,

3. the binding effective date,

4. the time of the binding,

5. the date of mailing of the application to the Plan, and

6. the signing producer's name.

H. **Fraud or Misrepresentation**

The producer shall not make false statements or misrepresentations to the Commissioner, the Manager, or any insurer or servicing carrier, and shall not aid or abet any applicant in making false statements in connection with any application or other dealings with the Plan or any insurer or servicing carrier.

Sec. 21. RESERVED FOR FUTURE USE

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

PERSONAL AUTOMOBILE PART

NOTES

Sec. 22. ELIGIBILITY

A. **New Applications**

1. Applicants Eligible for Plan

To be eligible for bodily injury, property damage, medical payments, and uninsured motorist coverage, the applicant shall meet the following criteria:

a. As a prerequisite to consideration for assignment under the Plan, the applicant shall complete the Eligibility Certification Statement part of the application. An applicant who has been unable to obtain automobile bodily injury and property damage liability coverages from an admitted insurer within 60 days prior to the date of application to the Plan shall be eligible for coverage through the Plan, subject to Section 23.

b. The Plan shall be available to

(1) all residents of California and to nonresidents of the state only with respect to vehicles registered in the state. However, an applicant who has recently moved to California shall not be required to register his or her automobile in California before the time limitation set forth in the California Vehicle Code.

(2) Nonresidents of the state who are members of the United States military forces with respect to automobiles registered in other states provided the military nonresidents are stationed in California at the time application is made and are otherwise eligible for coverage through the Plan.

2. Risks Eligible for Assignment

The following types of risks shall be assigned to an insurer:

a. Private passenger nonfleet

b. Miscellaneous nonfleet personal vehicles including the following types that are registered with the Department of Motor Vehicles:

(1) Motor homes

(2) Campers

(3) Dune buggies

(4) All-terrain vehicles

(5) Antique autos

(6) Snowmobiles

(7) Golf carts

(8) Motorcycles, motorscooters, motorbikes, trail bikes, and mopeds

c. Named nonowner applicants

3. Applicants Not Eligible for Plan

An applicant shall not be entitled to bodily injury, property damage, medical payments, and uninsured motorists coverage nor shall any insurer be required to afford or continue insurance under the following circumstances:

a. If any person who usually drives the motor vehicle does not hold or is not eligible to obtain an operator's license, except if that person's driving privilege has been suspended or revoked and can be restored upon the filing of proof of ability to respond in damages as provided by the California Vehicle Code.

If the operator's license of either the named insured or any other person who customarily operates a motor vehicle insured under the policy is suspended or revoked during the policy period, the policy shall remain in force to cover operation of a properly registered vehicle, provided both of the following requirements are met:

(1) Another duly licensed operator is provided on the policy or a duly licensed operator is added to the policy. A request to add a duly licensed operator shall be received by the insurer prior to the date of cancellation. Information provided on the additional licensed operator shall include his or her name, address, date of birth, operator's license number, and the extent of operations by the other operator.

(2) A Named Driver Exclusion Endorsement is completed excluding the named driver with the suspended or revoked license from coverage under the Plan policy and the completed endorsement is received by the insurer prior to the date of cancellation.

b. If the applicant or anyone who usually drives

the motor vehicle fails to meet all obligations to pay to any insurer any automobile insurance premiums owed on a policy issued under assignment by the Plan during the immediately preceding 24 months.

c. If the applicant is one of the two or more entities, in each of which the same person or group of persons or corporation owns a majority interest, none of those entities shall be eligible for insurance under the Plan if any of those entities has failed to meet its premium obligations as outlined herein. If an entity owns the majority interest in another entity which in turn owns the majority interest in another entity, all entities so related shall be considered as under the same majority ownership for purposes of this Section.

4. Applicant Reeligibility

Any applicant denied insurance under Section 22 or cancelled under Section 33.B of the Plan may reapply to the Plan as soon as the cause of ineligibility is removed.

a. Applicants cancelled under Section 33.B.1.b for failure to pay premium owed an insurer may reapply provided they have paid all owed amounts by money order or certified check and otherwise complied with the payment provisions of this Plan within 15 days of receipt of notification by the assigned insurer of amounts due.

In the event unpaid earned premium is in dispute and is evidenced by record of a formal complaint to the Department of Insurance or an appeal in accordance with Administrative Part, Section 16. Right of Appeal, the insurer shall be required to afford coverage as though the applicant were eligible pending the resolution of the dispute by the Department of Insurance.

b. If an applicant is ineligible in accordance with Section 22.A.3.a, the applicant may reapply for assignment if the applicant has agreed to accept a policy excluding all coverage while the automobile is being operated by an operator whose license has been suspended or revoked. To accomplish this purpose, the assigned insurer shall attach to the policy an Exclusion of Named Driver endorsement designating the excluded operator(s) by name.

c. If an applicant cancelled under Section 33.B.1.b reapplies, provided such applicant is otherwise eligible, the application shall be accompanied by the

deposit prescribed in Section 26.

d. The reapplication shall be considered a new application and the applicant shall be assigned to an insurer in accordance with the provisions of Section 28 or reassigned to the prior insurer, if applicable, in accordance with Section 28.G.

B. **Renewals**

Any insured who fails to pay the renewal premium quoted by the assigned insurer in accordance with the provisions of Section 37.A.2 of this Plan, may reapply for assignment at any time.

1. If the applicant reapplies, provided the applicant is otherwise eligible, the application shall be accompanied by the deposit prescribed in Section 26.

2. The reapplication shall be considered a new application and the applicant shall be assigned to an insurer in accordance with the provisions of Administrative Part, Section 8.

Sec. 23. APPLICATION REQUIREMENTS

Any applicant desiring insurance coverage through the Plan shall submit a completed original application and the full annual premium or deposit as prescribed in Section 26. The application shall not be a reproduction or computer produced form.

A. **Application Information**

The applicant shall provide underwriting and other information required on the application. The application shall request, at a minimum, the following information:

1. Last name, first name, middle name, or initial of the named insured:

2. Residence address (street number, street name, apartment number, city, state, zip code) and telephone number (including area code), if any:

3. Mailing address if different from residence;

4. Occupation and length of time at current employer;

5. Employer name (or D.B.A.), street number, street name, suite number, city, state, zip code, and business telephone number, if any:

6. Vehicle year, make, model, odometer reading, vehicle identification number, and license plate number;

7. State registered and registered owner’s name;

8. If uninsured motorists property damage coverage is purchased, information regarding whether there is

existing damage to the vehicle;

9. Usage of vehicle (pleasure, work, business, or farm) and the number of miles driven to work or school (one way);

10. Garaging address if vehicle not garaged at residence;

11. Rating band and rate class for as many vehicles as are listed;

12. Premium amounts for coverages (listed individually);

13. Total policy premium amount, plus gross deposit amount submitted;

14. Selection of payment plan option;

15. California driver's license number of all drivers in the household, and license number of any driver's license issued by another state within the last 12 months, if any;

16. Indicate years licensed of all drivers in the household, and if less than three years indicate date license was first issued;

17. Indicate individuals in the household who do not drive or are not licensed due to license suspension or revocation;

18. Indicate relationship to applicant, percentage of use of vehicle, birth date, and gender of all licensed drivers in the household;

19. Marital status, including name of spouse if not listed as additional driver;

20. Indicate whether applicant is required to file evidence of financial responsibility with the Department of Motor Vehicles, and if so, indicate all information needed to make filing (the name of the individual requiring the filing, the type of filing required, the reason for the filing, and state where the filing is required);

21. Name of last automobile insurer, policy number, termination date, and reason for termination, if available;

22. Provide details about all motor vehicle convictions and accidents in the preceding three years involving the applicant and anyone who operates the applicant's vehicle(s);

23. If the application is for a nonowner policy, provide all information, including rating band and rate class.

B. **Supporting Documentation**

Each new application submitted to the Plan shall be accompanied by a

legible photocopy made by the producer of both of the following:

1. The current, valid driver's license, temporary license, or operating permit of the applicant and all principal operators, including out of state and international licenses. If physical copy of license is unavailable due to suspension or revocation, indicate same on application.

2. The current vehicle registration, or if not available, a document showing proof of vehicle ownership.

C. **Eligibility Certification Statement**

The applicant shall complete the Eligibility Certification Statement section of the application. As required by California law, the Eligibility Certification Statement section shall contain

1. The applicant's name.

2. The definition of a good driver as set forth in California law, and an indication whether or not the applicant meets the criteria for purchase of a good driver discount policy.

3. The toll free telephone number for the Department of Insurance Consumer Hotline, where applicants may make complaints about any insurer.

4. The following information related to the declination of an application for insurance by a good driver applicant:

a. The name of the insurer which declined coverage;

b. The name and telephone number of the person at the company, agency, or brokerage that advised of the declination:

c. The date and time the declination was made; and

d. The reason given for the declination.

D. **Signature of Applicant**

The application shall be signed by the applicant under penalty of perjury under the laws of the state of California certifying that the information provided by the applicant on the application is correct.

E. Disclosures on Application

1. The application shall include all disclosures required by California law.

2. The application shall contain verbatim the following statements, in bold type:

a. "Any person who knowingly makes an application for motor vehicle insurance coverage containing any statement that

the applicant resides or is domiciled in this state when, in fact, that applicant resides or is domiciled in a state other than this state, is subject to criminal and civil penalties."

b. "Any person who knowingly presents a false or fraudulent claim for the payment of a loss is guilty of a crime and may be subject to fines and confinement in state prison."

c. "I understand that if I owe money for a prior CAARP policy which I have not formally appealed to the California Insurance Commissioner, the money I submit with this application for a new CAARP policy will be applied to that prior policy, and I am not entitled to a refund of the money I submit with this application, even if coverage for this new policy is terminated, until I pay the full amount owed for all current and prior CAARP policies."

3. The application shall include an agreement by the applicant to remit a check, money order, or bank draft of the applicant, producer of record, or financing institution, as directed by the insurer, for the balance of the full premium for the policy, within 30 days of notification or, if the insured has so elected, to make payments as specified in Section 26.

F. Information disclosed in the application, including information shown in the Eligibility Certification Statement, shall not be disclosed by the Plan, certified producers, or assigned insurers, except in accordance with this Plan or California law.

Sec. 24. RESERVED FOR FUTURE USE

Sec. 25. EXTENT OF COVERAGE

A. **Coverages and Limits**

Bodily Injury, Property Damage, Medical Payments, and Uninsured Motorist Coverage

1. The assigned insurer shall be required to write a policy for bodily injury coverage in amounts of $15,000 per person and $30,000 per occurrence, and property damage liability coverage in the amount of $5,000.

2. An insured assigned under the Plan may, at his or her option, also purchase coverage to be written in the same policy as the liability coverages for

a. The minimum amount necessary to provide exemption from any of the requirements of the financial responsibility laws of the California Vehicle Code or for which proof of ability to respond in damages or

adequate protection against liability is otherwise required by a valid law, ordinance, or regulation.

b. Medical payments coverage in the amount of $1,000 for private passenger automobiles shall be available to an applicant upon request, but written only in connection with the same policy issued in accordance with this Plan affording bodily injury and property damage coverage and written only on a basis in excess of all other valid and collectible insurance covering the same loss.

c. Uninsured motorist protection required by California insurance law at limits of $15,000 per person and $30,000 per occurrence for bodily injury and $5,000 for property damage shall be provided for vehicles principally used or principally garaged in this state. However, that protection may be waived if the only coverage with respect to the use of any vehicle is limited to the contingent liability arising out of the use of nonowned motor vehicles, or if the assigned insurer and any named insured have agree in writing to delete this protection.

B. **Standard Policy Coverage**

1. Personal Auto Policy

a. Risks eligible for assignment in accordance with Section 22 shall be afforded coverage on an automobile insurance policy and related endorsement forms approved by the California Department of Insurance. The following risks shall be provided uniform coverage, equivalent to the coverage most recently approved by the California Department of Insurance for use with California Automobile Assigned Risk Plan business:

(1) Private passenger automobiles, as defined in the Automobile Assigned Risk Plan Manual of Rules and Rates, which have four wheels and are owned or hired under a long-term contract by an individual or by husband and wife who are residents in the same household, or jointly by relatives other that husband and wife, or jointly by resident individuals;

(2) Motorcycles or similar type motor vehicles used for private passenger purposes which are owned or hired under

a long term contract by an individual or husband and wife who are residents in the same household, and which are written on a specified car basis; and

(3) Named nonowner risks.

b. For private passenger automobiles owned or hired under a long term contract by relatives other than husband and wife or resident individuals, and for motorcycles or similar type motor vehicles, referred to above, coverage shall be amended by an approved Automobile Assigned Risk Plan Miscellaneous Type Vehicle Endorsement.

c. For named nonowner risks referred to above, coverage shall be amended by an approved Automobile Assigned Risk Plan Named Nonowner Coverage Endorsement.

d. Restrictive endorsements shall not be employed unless approved by the Commissioner after consultation with the Committee.

2. Filing of Policy and Endorsement Forms

Any required filing of policy or endorsement forms shall be made on behalf of all insurers subscribing to this Plan by AIPSO. For the purposes of such filings, each insurer subscribing to the Plan is a subscriber to AIPSO.

Sec. 26. PREMIUM PAYMENT OPTIONS

The applicant or producer shall submit a separate check or money order payable to the Plan with each application. The initial payment shall be in the form of an applicant's check, producer's check, certified check, bank check, or money order. If the premium is to be financed, a separate check or draft shall accompany each application. The full annual premium payment option, the advance premium payment option, and the installment premium payment option shall be available to applicants.

A. **Full Annual Premium Payment Option**

The full annual premium shall be submitted with the application if the applicant elects the full annual premium payment option. If the premium check is inadequate, the outstanding premium balance shall be due within 30 days of the date of the premium notice.

B. **Advance Premium Payment Option**

A deposit of 25% of the estimated total annual premium for the policy, subject to a minimum of $125 per vehicle, whichever is greater, shall be submitted with the application. The balance of the total annual

premium is due within 30 days of the date the insurer bills the insured.

C. **Installment Premium Payment Option**

The installment premium payment option is not available if any portion of the annual premium is financed by a premium finance company. If any portion of the annual premium is financed after the installment premium payment option is elected, the insurer may bill the insured immediately for the unpaid balance of the annual premium.

1. Deposit

An advance gross deposit of at least 25% of the estimated annual premium, or a minimum of $250, whichever is greater, shall be submitted on new assignments and renewals.

2. Installments

The first installment due bill shall reflect the current annual premium minus the deposit to arrive at any outstanding balance. Each installment due bill shall be in statement form and shall show the opening or current outstanding balance, any credits or adjustments thereto, the current installment amount due, any amount past due, and the installment charge for the current installment. Subsequent installments due should be billed in substantially equal whole dollar amounts until the full premium is paid.

A maximum of five installments per policy year will be provided. Each installment shall consist of one-fifth of the remainder of the premium, subject to a minimum premium of $20 (to which any outstanding balance of less that $20 is to be added), plus an installment charge of $4 on each installment, including the final installment, due as follows:

The due date for the first installment shall be up to 60 days following the effective date of the policy. Subsequent installments shall be due on a monthly basis thereafter until the full annual premium has been remitted.

At any point during the installment billing period, the policyholder may elect to pay the balance outstanding and the insurer shall include installment charges only for those installments billed.

If the initial premium payment is inadequate for the policy computed by the designated insurer, the insurer at its option may bill for the premium deficiency immediately or include the deficiency in any subsequent installment bill, except as provided for applicants

subject to Section 26.G below.

If an installment amount due is unpaid when the next installment is due to be billed, a Notice of Cancellation shall be issued in lieu of the installment due bill. The cancellation notice shall reflect the outstanding balance of the account, the past due installment as well as the current installment. The total of the past due installment and the current installment shall become the minimum amount required to reinstate the policy. If this minimum payment is received by the due date of the current installment, the policy shall be reinstated and subsequent installments shall be processed on schedule. In the absence of payment of the minimum payment required by the due date of the current installment, the total outstanding balance shall be paid on or prior to the effective date of cancellation to reinstate the policy.

Premium adjustment on account of cancellation of coverage for nonpayment of any installment shall be computed upon the pro rata basis.

Copies of all bills and notices shall be sent simultaneously to the insured and to the producer.

3. Additional Premium -- Changes

Additional premium resulting from changes to the policy during its term shall be spread over the remaining premium installments, if any. Otherwise, the additional premium shall be billed immediately as a separate transaction. If there are no installments remaining, the full amount of the additional premium shall be billed immediately.

4. Return Premium -- Changes

If the outstanding premium balance is eliminated, the remaining return premium amount shall be refunded to the insured or his assignee within 30 days from the date the insurer receives the change. Return premium resulting from changes in the policy shall be used to reduce any premium balance outstanding. If any outstanding premium balance remains, the number and amounts of the remaining installments shall be adjusted accordingly, except that when the return amount is less than $20 it may then be treated as a separate transaction.

D. Deposit, Installment, or Additional Premium Payments Applicable to A, B, or C, Above

The deposit accompanying the application shall be by the

applicant's check, producer's check, certified check, bank check, or money order, or by premium finance company check or draft payable to the California Automobile Assigned Risk Plan. Producer commission shall be paid in accordance with Section 34.

The Manager shall immediately return the premium check if the risk is not assigned. The insurer shall credit the deposit against the gross premium if the risk is assigned. The insurer shall refund any portion of the deposit only as provided in Sections 26.E and F.

Installments and additional premium payments shall be by applicant's check, producer's check, certified check, bank check, or money order payable to the assigned insurer.

A premium finance company check submitted as premium payment shall be made payable either to the California Automobile Assigned Risk Plan or the assigned insurer.

E. **Premium Financed Policies**

1. If the premium is financed, the payment tendered to the insurer shall be accompanied by a copy of the financing agreement and a copy of a power of attorney, if any.

2. No instrument of payment may impose terms or conditions affecting any return of premium due to cancellation of the assigned policy which are inconsistent with the Plan rules or the terms of the insurance policy, and the insurer may refuse to accept such form of payment if the financing agreement or payment draft contains any term or condition relating to the calculation of any return premium and/or commission that is inconsistent with the Plan rules or the terms of the insurance policy.

F. **Dishonored Checks**

If any check is dishonored the insurer may impose a dishonored check fee of up to $10, and the Manager or insurer may require all further payments from that maker to be in the form of certified check, bank check, or money order, for a period of 12 months from the date the check was dishonored.

Insurers shall notify the Manager of producers who submit dishonored checks. The Manager may require those producers to submit a certified check or money order with future applications.

G. **Premium Owed for Prior Insurance**

If an applicant is assigned or reassigned to an insurer and the applicant owes an insurer earned premium for prior Plan coverage, the deposit check shall be applied to the earned premium and coverage shall be afforded in accordance with this Section.

1. The earned premium owed shall meet all of the following criteria:

a. The earned premium shall be owed on a prior Plan policy in effect within 24 months of the time of application.

b. The earned premium shall not be the subject of a formal complaint to the Insurance Department or an appeal under Section 16.

c. The insurer shall have previously given written notice to the insured of the earned premium due.

2. If the earned premium meets all of the above criteria, the insurer shall proceed as follows:

a. If the deposit premium is insufficient to satisfy the full amount of the outstanding earned premium due for prior Plan coverage, the insurer shall apply the deposit check to the prior Plan policy. The insurer shall return the application to the Plan as ineligible for Plan coverage due to the outstanding premium balance. No coverage is in effect.

b. If the deposit is sufficient to satisfy the full amount of the outstanding earned premium due for prior Plan coverage, the insurer shall apply the deposit check to the prior Plan policy. The insurer shall issue a new policy and a cancellation notice for payment of the deposit balance.

c. If the applicant's premium deposit is in the form of a finance company check, the application accompanied by the finance company check shall be returned to the producer as ineligible.

Sec. 27. RESERVED FOR FUTURE USE

Sec. 28. APPLICATION FOR ASSIGNMENT, DESIGNATION OF INSURER, EVIDENCE OF INSURANCE, AND EFFECTIVE DATE OF COVERAGE

A. **Verification of Application**

Upon receipt of an application and prior to assignment to an insurer, the Manager shall verify that the form is properly completed, signed, and dated. In so verifying, the Manager shall perform all of the following:

1. Examine every required form to ensure that each is completely and correctly filled out, signed, and dated and that all required documents are attached thereto.

2. Provide written notice to the applicant and the producer specifying all violations in the application, and requiring correction of those violations within 10 working days of the postmark date of the notice.

3. Review the Eligibility Certification Statement section of the application to determine if

   a. There is an immaterial omission or mistake. If so, written notice shall be sent to the insured and the producer. If the applicant's correction of the violation is not postmarked within 10 working days of the postmark date of the notice, coverage is void from inception, and the application forms and the deposit shall be returned to the producer.

   b. There is a material violation relative to determining the eligibility of the applicant. If so, coverage is void from inception. Written notice to that effect, including the nature of the defect, shall be sent to the applicant and the producer, and the application and the deposit shall be returned to the producer.

4. Confirm the certification of the producer who submitted the application.

5. Maintain a computerized data base reflecting each producer's application submission history for a period of three years, including the names of all individuals placed in the Plan, all violations accrued, and actions taken to correct those violations, if any.

B. **Designation of Insurer**

Upon determination by the Manager that the application has been properly completed, signed, and dated and that the risk is eligible for assignment, the Manager shall designate an insurer to which the application shall be assigned. The Manager shall advise the applicant and producer of the designated insurer and the effective date of coverage.

C. **Effective Date of Coverage**

For the purposes of Section 28, the postmark which is to be recognized by the Plan shall be the postmark of the United States Postal Service. A meter stamp shall not be considered a postmark of the United States Postal Service for the purposes of effecting coverage.

The Plan shall provide for effective dates of coverage consistent with all of the following:

1. In no event shall coverage be effective prior to the date and time of completion, signing, and dating of the application forms.

   When the applicant requires that coverage be effective immediately, the effective date and time shall be established using an Electronic Effective Date Procedure established by the Plan. The Plan shall establish a future effective date using the Electronic Effective Date Procedure. The future

effective date option shall be available upon request by an applicant. An applicant may request a future effective date of 15 days or less from the date of application completion.

The Manager shall establish and maintain a toll-free telephone number as part of the Electronic Effective Date Procedure. The Manager shall maintain sufficient capacity to service, in a timely manner, applications received by means of the Electronic Effective Date Procedure.

The Electronic Effective Date Procedure shall be available only to producers who are certified by the Plan.

2. Coverage for vehicles shall become effective at the date and time the application is transmitted through the Plan's Electronic Effective Date Procedure if and only if all of the following requirements are met:

a. The producer shall access the Electronic Effective Date Procedure within 24 hours of the date and time the application is completed, signed, and dated.

b. The producer and the applicant certify under penalty of perjury on the application the date and time that the application forms were completed, signed, and dated.

c. The producer uses the Electronic Effective Date Procedure adopted pursuant to Section 28.C and inserts the reference number or other required verification code on the application.

d. The application forms and required deposit are mailed to the Manager no later than two working days following the date the application forms are completed, signed, and dated. The mailing date is established by the United States Postal Service postmark on the envelope enclosing the application.

3. If the application is made without using the Electronic Effective Date Procedure (including submission by mail or delivery by means other than the United States Postal Service), or if the provisions of Section 28.C.3 are not complied with, coverage shall be effective as of 12:01 A.M. on the date following receipt of the application in the Plan Office unless a future effective date is requested or an in force policy is terminating.

4. If the applicant desires coverage on a date later than that which would otherwise be fixed pursuant to this Section, the applicant shall

indicate that date and the Manager shall fix the effective date of coverage as of 12:01 A.M. on the desired date of coverage. However, no date shall be later than 45 days after the date of application.

5. In the event there is in force a policy terminating at a date later than the date that would be fixed pursuant to this Section and the applicant indicates such date in his application, the Manager shall fix the date when coverage becomes effective as 12:01 A.M. on the stated termination date of such policy.

6. The effective date of coverage for an additional vehicle to be added to an in force policy or for other coverage to be added to an in force policy shall not be subject to the requirements of this Section, but shall be governed by the terms of the policy and the provisions of Section 29.

7. In order to provide evidence of a requested effective date, the producer of record shall maintain records in accordance with Section 20.G for all risks for which he or she has designated the time and date of coverage.

8. Where the Plan's Electronic Effective Date Procedure is disrupted due to failure of transmission or receiving equipment due to fire, earthquake, explosion, civil unrest, or similar disaster or emergency, the producer may bind coverage up to one day prior to the time the application forms and deposit are mailed to the Manager, as established by the United States Postal Service postmark on the envelope in which the application was enclosed. In no event shall coverage be effective prior to the date and time the application is completed, signed, and dated.

9. Notwithstanding any other provision of this Section, where the producer discovers a material error in an application, the producer shall be authorized to rescind coverage bound for a period up to 24 hours after the date and time established pursuant to the Plan's Electronic Effective Date Procedure.

D. **Plan Submission to the Designated Insurer**

The Manager shall forward to the assigned insurer the application, a copy of the notice of the effective date of coverage, and the deposit premium, same to be credited by the insurer against the policy premium.

E. **Financial Responsibility Certificates**

If the applicant obtains coverage under the Plan, and the applicant or

any resident of the same household who usually drives the insured vehicle requires a financial responsibility certificate (SR-22), the Manager shall, on behalf of the assigned insurer, and at the time the application is received, process the certificate and notify the insurer, the producer, and the insured. The filing shall become effective as of the effective date of coverage.

F. **Applicant Refusal to Accept Policy**

If for any reason the applicant refuses to accept the policy, or coverage is terminated pursuant to Section 33.B, the return premium shall be calculated at .90 of the pro rata unearned premium for the period of coverage, subject to a minimum premium of $15 per vehicle, whichever is greater.

G. **Reassignment to Prior Insurer**

Applicants to the Plan shall be reassigned to the prior assigned insurer if a previous assignment of that applicant was made in the immediately preceding 24 months.

Sec. 29. ADDITIONAL VEHICLES OR COVERAGES

A. In the event additional coverages as described in Section 25 of this Plan are desired during the policy period, coverage for an additional or replacement vehicle is desired, or a change in driver is requested, a written policy change request shall be submitted directly to the assigned insurer no later than three working days after its receipt by the producer. Upon receipt of the policy change request, the assigned insurer shall endorse the in force Plan policy.

B. Premium requirements for policy change requests include

1. The policy change request shall be accompanied by additional payment, if required, in the form of a check or money order payable to the assigned insurer for an amount equal to 25% of the estimated annual gross premium attributed to the policy change, or the full pro rata premium for the remainder of the policy period, whichever is less.

2. The balance of the premium shall be payable in accordance with the provisions of Section 26.

3. All premium payments shall be submitted on a gross basis.

C. Except as otherwise provided in the policy contract, coverage shall be effective at the date and hour specified in the policy change request provided

1. the producer and applicant certify the date and hour of completion of the policy change request, and

2. the producer mails or delivers by means other than the United States Postal Service the policy change request to the insurer within one

working day of its completion, and

3. the United States Postal Service postmark date on the transmittal envelope, or date affixed to the shipping invoice complies with the mailing requirement shown in Section 29.C.2.

In no event shall coverage be effective prior to the date and hour of completion of the request, except as provided for by the provisions of the policy contract.

D. If the provisions of subsections 29.C.2 and 3 above are not met, the effective date of coverage shall be determined as follows:

1. The coverage shall be made effective at 12:01 A.M. on the day following the date the policy change request is mailed to the insurer as shown by the postmark if the transmittal envelope bears a legible postmark affixed by the United States Postal Service.

2. If the transmittal envelope was mailed and does not bear a legible postmark of the United States Postal Service, or is stamped by a postage metering device, coverage shall be effective at 12:01 A.M. on the date the policy change request is received by the insurer.

3. If the policy change request is delivered to the insurer by means other than the United Sates Postal Service, coverage shall be made effective at 12:01 A.M. on the day following receipt by the insurer.

E. If the policy change request is transmitted to the assigned insurer via facsimile ("fax"), coverage shall be made effective at 12:01 A.M. on the day following receipt by the insurer.

F. The rates for the additional vehicle and/or coverage shall be those in effect at the inception date of the policy. The driving performance premium modifications for an additional driver shall be based upon the convictions occurring within the 36 months immediately preceding the date the driver is added to the policy.

H. The producer shall maintain appropriate records for all risks for which he or she has submitted policy change requests in accordance with Section 20.G.

Sec. 30. RESERVED FOR FUTURE USE

Sec. 31. THREE-YEAR ASSIGNMENT PERIOD

The assignment period shall be 36 consecutive months. If an insured is unable to obtain insurance at the end of the three-year assignment period, reapplication for insurance may be made to the Plan.

In the case of nonresident military personnel, as described in Section 22, the assigned insurer shall not be required to renew if at the time of the renewal the

insured is stationed in another state and his or her automobile is not registered in California.

The three-year assignment period provided for in this Section shall not apply to Plan policies written by a buy-out insurer prior to the implementation of a LAD buy-out contract in accordance with Section 8.B. if the servicing company renews expiring policies which would otherwise be the responsibility of the buy-out company. However, unless otherwise provided in the buy-out agreement, a buy-out insurer remains responsible for an assignment for 36 consecutive months.

Sec. 32. RESERVED FOR FUTURE USE

Sec. 33. CANCELLATIONS

A. **Cancellation at Request of Insured**

If for any reason the insured requests a cancellation, the return premium shall be calculated at .90 of the pro rate unearned premium for the period of coverage, subject to a minimum premium of $15 per vehicle or policy, whichever is greater. The insurer shall return the balance to the insured.

In the following cases, the return premium shall be computed pro rata:

1. If the insured has disposed of the automobile, provided the insured takes out a new policy with the same insurer on another automobile to become effective within thirty days of the date of cancellation.

2. If the insured automobile is repossessed under terms of a financing agreement.

3. If an automobile is deleted from a policy, the policy remains in force on other automobiles; or if there remains in force in the name of the insured or his or her spouse, if a resident of the same household, and with the same insurer, a concurrent auto policy covering another auto.

4. If the insured enters the armed forces of the United States of America.

5. If the insured auto is stolen or destroyed (total or constructive total loss) and cancellation is requested by the insured within 30 days following the date the auto is stolen or destroyed. The return premium for all coverages (including the premium for coverage under which the loss was paid) shall be calculated from the day following the date of such loss.

6. If the insured requests cancellation of a policy because that coverage has been placed in the voluntary market, and the assigned insurer receives a statement to that effect and proof of a replacement policy.

B. Cancellation by Insurer

1. An insurer which has issued a policy under this Plan shall have the right to cancel the insurance by giving notice as required in the policy if the insured

   a. or any other person who usually drives the motor vehicle insured has had his or her operator's license suspended or revoked during the policy period, unless another operator who is licensed is listed on the policy or is added to the policy and a completed Named Driver Exclusion Endorsement is submitted in the prescribed manner prior to the cancellation date, or

   b. has obtained the insurance through fraud or material misrepresentation, or

   c. has failed to pay any premiums, including installments or the final premium adjustment, due under the policy, or

   d. has failed to remedy defects in the application as outlined in Section 23, or

   e. cannot be located by the insurer for purposes of its underwriting review, or fails to respond to at least two written requests for pertinent underwriting information which would have a direct bearing on the rating of a policy, or

   f. becomes eligible for CAIP midterm under the Plan.

2. An insurer which has issued a policy under this Plan shall also have the right to cancel the insurance if a premium finance company or producer requests cancellation by exercising an appropriate power of attorney given by the insured.

3. Each such cancellation shall be on a pro rata basis subject to a minimum of $15 per vehicle or policy, whichever is greater, with the balance returned to the insured or his or her assignee. A copy of each such cancellation notice shall be furnished to the producer. When an insurer cancels a policy, a statement of facts in support of each such cancellation shall be sent to the producer and to the insured at least 10 days prior to the effective date of cancellation.

   Cancellation shall be effective on the date specified and coverage shall cease on such date.

Sec. 34. COMMISSION TO PRODUCER OF RECORD

A. The designated insurer to which an assignment has been made shall pay the producer a commission for the producer's services in accordance with the following:

For private passenger nonfleet risks, miscellaneous nonfleet personal vehicle risks, and named nonowner applicants, 12% of the premium received from the applicants, which shall be $35 minimum earned commission at the inception date of a newly issued policy, with the remainder earned pro rata after the first $35 would have been earned pro rata.

B. The commission percentages specified above shall apply to surcharges added to the premium.

C. A producer accounting system may be utilized by the insurer in its payment of producer commission.

D. Full commission earned on the total annual premium is payable within 30 days of issuance of the policy.

E. No commission is payable upon any installment charge.

F. In the event of cancellation or a policy change resulting in a reduction or an increase in premium, commission shall be payable on the earned premium received by the insurer.

G. If a policy is cancelled or a policy change results in a reduction in premium, the producer shall pay any unearned commission tothe assigned insurer within 30 days of receipt of the insurer's notice to the producer requesting return of unearned commission.

H. Final commission adjustment shall be in accordance with this Section.

I. Should the producer fail to provide his or her tax identification number, the insurer may defer payment of commission until the proper identification is provided.

Secs. 35-36. RESERVED FOR FUTURE USE

Sec. 37. PERFORMANCE STANDARDS FOR INSURERS WRITING CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN PRIVATE PASSENGER NONFLEET RISKS

A. **Insurer Performance Standards**

These insurer performance standards set forth the specific requirements that insurers shall meet in the underwriting and servicing of all insurance policies written through the Plan. Each failure to comply with one of these insurer performance standards, or to comply with any statute or regulation governing assigned risk business or referenced in this Section, shall be considered one violation of the insurer performance standards.

1. Issuance of Original Policy

a. Upon receipt of the notice of designation and the deposit premium from the Plan, the designated insurer shall

(1) if the Plan Office is unable to make a financial

responsibility filing, within five working days after receipt of the notice of designation, the insurer shall make filings of policies or financial responsibility certificates, including SR-22s, provided all necessary information is contained in the application form and such application is accompanied by the deposit prescribed in Section 26. Such filings shall indicate the effective date specified by the Plan in the notice of designation.

(2) within 15 days of determination that an application contains a violation, the insurer shall give written notice of the violation to the insured and to the producer and written notice that the insured has 15 days from the mailing of the notice to correct the violation.

The insurer shall issue the policy without waiting for the correction unless the violation is material to determining the applicant's eligibility for coverage under the Plan or unless the insurer lacks and cannot reasonably obtain sufficient information to issue the policy.

(3) within 30 days issue a policy to become effective in accordance with the provisions of Section 28 provided the applicant is eligible and all information necessary for the insurer to fix a proper rate is contained in the application form.

(4) unless requested by the producer or policyholder, no insurer shall add additional vehicles or coverages to a policy unless the change is based on information actually known to the insurer which would justify the additional change.

b. Unless the insurer finds the applicant ineligible for insurance under the rules of the Plan, the assigned insurer shall confirm the premium payment option selected. The assigned insurer shall be guided by the following:

(1) Full Premium Payment Option

See Section 26.

(2) Advance Premium Payment Option

See Section 26.

(3) Installment Premium Payment Option

See Section 26.

2. Renewal Policies or Certificates

For the purposes of Section 37, the postmark which is to be recognized by the Plan shall be the postmark of the United Sates Postal Service. A meter stamp shall not be considered a postmark of the United States Postal Service for the purpose of effecting coverage.

a. The insurer may request current policy rating information from the insured by means of a renewal questionnaire which shall be mailed to the insured at least 75 days prior to the expiration date of the current Plan policy. If the insured fails to return the questionnaire, the insurer shall issue a second request at least 60 days prior the expiration date of the current policy. If the insured fails to respond prior to 45 days before expiration of the current policy, the insurer shall be deemed to have fulfilled its responsibility to quote a renewal premium and shall so advise the producer.

b. At least 30 days but not earlier than 60 days prior to the inception date of renewals, the assigned insurer shall notify the insured that

(1) a renewal shall be issued provided the premium set by the insurer is received at least one day prior to the inception date of such renewal. If the insured requires a financial responsibility filing, the premium should be postmarked at least one day prior to the inception date; or

(2) if the renewal is to be written on the installment premium payment option, such renewal shall be written provided the deposit premium (25% of the total annual premium subject to a minimum of $250, whichever is greater) stipulated by the insurer is postmarked at least one day prior to the inception of such renewal. If the insured requires a financial

responsibility filing, the deposit premium should be postmarked at least one day prior to the inception date of the renewal; or

(3) the Plan policy shall be nonrenewed because the insured is not entitled to insurance under the Plan.

Renewal premium quotations shall be made in accordance with present Plan rules. A copy of the notice shall be provided to the producer.

For insureds not requiring financial responsibility filings, renewal premium payments postmarked one day prior to the inception date of the renewal shall be considered to be on time, as evidenced by the postmark of the United States Postal Service on the transmittal envelope. For insureds requiring financial responsibility filings, renewal premium payments postmarked one day prior to the expiration date shall be considered to be on time, as evidenced by the postmark of the United States Postal Service on the transmittal envelope.

Payment to the producer does not constitute payment to the insurer unless and until such payment is actually received by the insurer.

c. The insurer shall mail renewal policies and/or certificates within 30 days of receipt of the appropriate renewal premium deposit specified in Section 37.A.2.b above.

3. End of Assignment Period

At least 45 days prior to the expiration date of the final renewal of the three-year assignment period, the insurer shall notify the insured that the period of assignment under the Plan will terminate on the expiration date. At least 45 days prior to the expiration date of the final renewal under a LAD agreement, the insurer shall notify the insured that the period of assignment under the LAD agreement will terminate on the expiration date. A copy of such notice shall be sent to the producer.

4. Endorsements

The insurer shall mail requested endorsements within 30 days of receipt of the completed request for the endorsement.

5. Acknowledgment

The insurer shall acknowledge receipt of requests for issuance of a policy or endorsement within 15 days of receipt of the request.

6. Return Premiums

The insurer shall mail the return premium check within 30 days of the effective date of the cancellation or endorsement that results in a refund.

7. Premium Collection

The insurer shall collect premiums authorized under Plan rules.

8. Commissions

Commissions shall be paid no less frequently than monthly and shall be paid within 15 days after the close of the month in which the commission was credited to the producer's account. The insurer shall issue a statement and, if applicable, the proper commission check unless the producer fails to provide his or her proper tax identification number.

Commission will be paid in accordance with Section 3.

An insurer shall not file a producer complaint with the Plan concerning disputed unearned commissions unless after reasonable investigation it has a good faith belief that such commissions are currently owed to the insurer.

9. Claim Handling

In addition to complying with any fair claims practices laws and regulations, insurers shall comply with the following requirements in the handling of claims:

a. Upon policy issuance, the insurer shall provide insureds and producers with written information on how and where to report claims.

b. The insurers shall be responsible for handling all claims properly and promptly in accordance with the terms of the policy contract subject to the limits of coverage provided. The insurer's claim adjustment practices and procedures shall be the same as those followed for voluntary business and shall include providing the producer with evidence of claims payment and reports of other resolution of claims.

10. Surcharges

If required following receipt of motor vehicle records, within 60 days after the effective date of any policy issued or renewed as an assigned application and within 30 days after the insurer receives the motor vehicle records, the insurer shall adjust the premium in accordance with the Manual and shall notify the producer and the insured of the adjustment and the reasons for it. If the insured cancels rather than paying the additional premium resulting from an upward adjustment, the insurer shall refund unearned premium to the insured or his or her assignee on a pro rata basis.
The insurer shall furnish an itemized listing of the basis for each surcharge at the time each surcharge is applied.
No surcharge shall be applied which is not specifically authorized by the Plan Manual.

B. **Violations of Insurer Performance Standards**

Any interested person may submit a report of any violations of the CAARP and/or LCA insurer performance standards to the Manager. The Manager shall investigate each report, determine if it is valid, report its findings to the insurer and the party submitting the report within 60 days of submission of the report, and maintain a record of each insurer's failure to comply with the insurer performance standards in CAARP Manual Section 37 and LCA Manual Section 37.

1. Assessing Insurer Performance

   The performance of insurers shall be assessed based upon five percent of each insurer's average monthly number of CAARP and LCA assignments during the preceding six months.

2. Notifications

   The Manager shall assess each insurer's performance regularly to determine whether the number of violations in any one month exceeds the five percent standard applicable to a combined total number of applications for CAARP and LCA risks set forth in Section 37.B.1 and whether there are at least three violations within that month. If the violations exceed the standard, the Manager shall take the following actions:

   a. First Notification Letter

      Mail a letter by certified mail notifying the insurer of its failure to comply with the insurer performance standards and requesting that corrective measures shall be taken and a report of such

corrective measures be sent to the Manager within 15 days.

b. Second Notification Letter

Mail a second letter by certified mail if the insurer exceeds its standard within the following 90-day period notifying the insurer of its failure to comply with the insurer performance standards and requesting that corrective measures shall be taken and a report of such corrective measures be sent to the Manager within 15 days.

c. Third Notification Letter

Mail a third letter by certified mail should the insurer violate the insurer performance standards within 90 days following receipt of the second notification letter. This letter shall inform the insurer of a subsequent failure to comply with the insurer performance standards and advise that the case shall be referred to the Committee for investigation.

The Manager shall immediately send a copy of each of the above referenced letters to Commissioner and the Committee listing the insurer, the number of violations, letters that have been sent, and any responses

3. Investigations

After sending a third letter, the Manager shall request the Committee to conduct an investigation of the insurer's practices for CAARP and LCA risks, except as provided in subsection 37.B.3.d below.

a. The Committee shall notify the insurer in writing that it may, within 15 days, submit written comments to the Committee regarding the complaints. The Committee shall also give notice to each person who submitted the report(s) under investigation that he, she, or they may provide written comments or documentation to the Manager within 15 days of the insurer's submission. A copy or summary of the insurer's submission shall be included with the notice.

b. Upon request, the Manager shall provide the insurer, at least 10 calendar days before the insurer's written comments are due to

be submitted to the Committee and/or at least 10 days before any hearing convened by the Commissioner, with all relevant nonprivileged documents in the possession of the Plan or of any person who has filed a complaint, relating directly or indirectly to reports that the insurer's conduct or service of CAARP or LCA business has been inadequate or faulty, unless the Manager, insurer, Committee, or Commissioner has reason to believe that providing particular documents will facilitate fraud, misconduct, or the concealment of evidence.

c. Following review of any written submissions, the Committee shall submit a report with a recommendation to the Commissioner, either that no action be taken, or that the Commissioner consider action as set forth in the recommendation.

d. The Manager shall refer all claims of discrimination by an insurer in claims handling on the basis of race, gender, income, religion, language, sexual orientation, ancestry, national origin, physical disability, or assigned risk status to the Commissioner for independent evaluation and shall obtain the Commissioner's approval before referring such claims to the Committee, but a lack of acknowledgement or other response from the Commissioner within 30 days after referral is made (35 days if the information is mailed) shall be deemed approval to refer the matter to the Committee for investigation pursuant to CAARP and LCA Manual rules.

4. Action by Commissioner

The Commissioner may accept, reject, or modify the recommendations of the Committee.

a. Unless the Commissioner decides without the need for a hearing that the insurer should suffer no adverse action, the Commissioner shall notify the insurer that it may submit a request for hearing, in writing, to the Commissioner in care of the Department of Insurance, Rate Enforcement Bureau. Any request for hearing shall be received by the Commissioner within 20 days of the date of mailing of the notification to the insurer, and the hearing shall be scheduled within 30 days of receipt of the request for the hearing.

b. After a hearing, if one is requested, the Commissioner may take any

action provided for in this Plan and/or impose any penalty authorized by law.

Upon final disposition by the Commissioner, the Commissioner shall notify the insurer, the Manager, the party or parties who submitted the report(s), and the Advisory Committee of the results of the Commissioner's investigation, the Commissioner's decision, and the reasons for the decision. In addition to or in lieu of penalties provided by law, in appropriate cases the Commissioner may direct the Manager to increase the insurer's CAARP or LCA assessment for the costs of the Plan or Program pursuant to California law, as the Commissioner may deem fair, adjusting the apportionment among insurers as necessary. Violations of fair claims settlement practices regulations, alone or together with other noncompliance with these performance standards, are grounds for imposing such sanctions.

Secs. 38-39 RESERVED FOR FUTURE USE

CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN

COMMERCIAL AUTOMOBILE PART

NOTES

Sec. 40. ELIGIBILITY

A. **New Applications**

1. Applicants Eligible for Plan

To be eligible for bodily injury, property damage, medical payments, and uninsured motorists coverage, the applicant shall meet the following criteria:

a. An applicant who has been unable to obtain automobile bodily injury and property damage liability coverages from an admitted insurer within 60 days prior to the date of application to the Plan shall be eligible for coverage through the Plan subject to Section 41.

b. The Plan shall be available to

(1) all residents of California and nonresidents of the state only with respect to vehicles registered in the state. However, an applicant who has recently moved to California shall not be required to register his or her automobile in California before the time limitation set forth in the California Vehicle Code.

(2) nonresidents of the state who are members of the United States military forces with respect to automobiles registered in other states provided the military nonresidents are stationed in California at the time application is made and are otherwise eligible for coverage through the Plan.

(3) Except as provided under Section 40.C, the Plan shall be available to residents and nonresidents of the state only with respect to motor vehicles that are registered or shall be registered in the state in accordance with the California Vehicle Code.

2. Risks Eligible for Assignment

a. All applicants shall be assigned to a servicing carrier and pooled in CAIP **EXCEPT** for the following types of risks:

(1) Private passenger nonfleet

(2) Miscellaneous nonfleet personal vehicles including the following types that are registered with the Department of Motor Vehicles:

(a) Motor homes

(b) Campers

(c) Dune buggies

(d) All-terrain vehicles

(e) Antique autos

(f) Snowmobiles

(g) Golf carts

(h) Motorcycles, motorscooters, motorbikes, trail bikes, and mopeds

(3) Named nonowner applicants

b. The foregoing exceptions shall not apply to those vehicles of any applicant subject to the Federal Motor Carrier Act of 1980 or any law or regulation requiring limits other than the minimum financial responsibility limits, and further, the exceptions shall not apply to any vehicle that is part of a risk which includes a vehicle(s) required to be pooled.

c. When one or more vehicles owned or hired by a single entity are to be provided coverage under this Part, and the vehicle(s) require a filing or limit of liability as mandated by federal law, state law, or an ordinance, regulation, or other requirement of a political subdivision, all vehicles owned or hired by such entity shall be written under this Part subject to the filing provided.

3. Applicants Not Eligible for Plan

An applicant shall not be entitled to bodily injury, property damage, medical payments, and uninsured motorists coverage nor shall any servicing carrier be required to afford or continue insurance under the following circumstances:

a. If any person who usually drives the motor vehicle does not hold or is not eligible to obtain an operator's license, except if that person's driving privilege has been suspended or revoked and can be restored upon the filing of proof of ability to respond in damages as provided by the California Vehicle Code, or

b. If the applicant or anyone who usually drives the motor vehicle fails to meet all obligations to pay to any insurer any automobile insurance premiums owed on a policy issued under assignments by the Plan during the immediate preceding 36 months.

c. If the applicant is one of two or more entities, in each of which the same person or group of persons or corporation owns a majority interest, none of those entities shall be eligible for insurance under the Plan if any of those entities has failed to meet its premium obligations as outlined herein. If an entity owns the majority interest in another entity which in turn owns the majority interest in

another entity, all entities so related shall be considered as under the same majority ownership for purposes of this Section.

d. Nothing in this section shall prohibit an applicant from obtaining coverage simply because an employee or independent contractor of the applicant owes premium on a private passenger automobile policy.

4. Applicant Reeligibility

Any applicant denied insurance under Section 40 or cancelled under Section 51.B of the Plan may reapply to the Plan as soon as the cause of ineligibility is removed.

a. Applicants cancelled under Section 51.B.1.b for failure to pay premium owed an insurer may reapply provided they have paid all owed amounts by money order or certified check and otherwise complied with the payment provisions of this Plan within 15 days of receipt of notification from the servicing carrier of amounts due.

In the event unpaid earned premium is in dispute and is evidenced by record of a formal complaint to the Department of Insurance or an appeal in accordance with Administrative Part, Section 16. Right of Appeal, the servicing carrier shall be required to afford coverage as though the applicant were eligible pending the resolution of the dispute by the Department of Insurance.

b. If an applicant is ineligible in accordance with Section 40.A.3.a, the applicant may reapply for assignment if the applicant has agreed to accept a policy excluding all coverage while the automobile is being operated by an operator whose license has been suspended or revoked. To accomplish this purpose, the servicing carrier shall attach to the policy an Exclusion of Named Driver endorsement designating the excluded operator(s) by name.

c. If an applicant cancelled under Section 51.B.1.b reapplies, provided such applicant is otherwise eligible, the application shall be accompanied by the deposit prescribed in Section 44.

d. The reapplication shall be considered a new application and the applicant shall be assigned to a servicing carrier in accordance with the provisions of Section 46 or reassigned to the prior servicing carrier, if applicable, in accordance with Section 46.G.

e. Risks cancelled for failing to respond to a request to schedule a preliminary premium audit or failing to comply with a request to conduct a preliminary premium audit shall first submit to and permit the completion of a final premium audit of the cancelled policy causing the ineligibility. The servicing carrier issuing the policy that was subsequently cancelled shall conduct the audit to remove the cause of ineligibility.

B. **Renewals**

Any insured who fails to pay the renewal premium quoted by the servicing carrier in accordance with the provisions of Section 54.A.2 of this Plan, may reapply for assignment at any time.

1. If the applicant reapplies, provided the applicant is otherwise eligible, the application shall be accompanied by the deposit prescribed in Section 44.

2. The reapplication shall be considered a new application and the applicant shall be assigned to a servicing carrier in accordance with the provisions of Section 46.

C. **Applicant With Multistate Operations**

1. For multistate operations, the state Plan in which the operating headquarters of the risk are located shall provide the insurance.

For the purpose of this Section, operating headquarters is defined as the place where the principal officers generally transact business and the place to which reports are made and from which orders emanate.

The burden of proof with regard to the location of the operating headquarters, consistent with the definition as stated above, lies with the applicant who seeks to be insured through a particular state Plan.

A vehicle principally garaged in another state shall be subject to the rates, additional charges, rating rules, and policy forms applicable under the Plan of the state of principal garaging.

2. Liability Insurance

The servicing carrier shall provide, upon the request of an eligible applicant, limits of bodily injury and property damage liability insurance equal to the maximum limits of liability insurance for which the applicant is eligible afforded in any state Plan in which the applicant’s vehicles are garaged.

3. Physical Damage Insurance

   Physical damage coverage shall be provided by the servicing carrier upon request of the applicant for vehicles garaged outside headquarters state but only to the extent that physical damage coverage is afforded under the Plan of the state(s) in which such vehicles are principally garaged.

4. To the extent to which the provisions of Section 40.C conflict with Section 40.A, the provisions of Section 40.C shall control.

Sec. 41. APPLICATION REQUIREMENTS

Any applicant desiring insurance coverage through the Plans shall submit a completed original application and the full annual premium or deposit as prescribed in Section 44. The application shall not be a reproduction or computer produced form.

A. **Application Information**

The applicant shall provide underwriting and character information required on the application. The application shall request, at a minimum, the following information:

1. Last name, first name, middle name, or initial of the named insured;

2. D.B.A. name, if applicable;

3. Address (street number, street name, apartment number, city, state, county, zip code), telephone number (including area code), and fax number, if any;

4. Social security and/or tax identification number;

5. Mailing address if different from residence;

6. Business of applicant, and/or nature of operation, including goods transported, if any;

7. Headquarters of business (if different from above);

8. Whether the applicant is subject to a filing with a government agency, and if so, the type of filing required;

9. Whether the applicant is required to file evidence of financial responsibility with the Department of Motor Vehicles, and if so, all information needed to make the filing (the name of the individual requiring the filing, the type of filing required, the reason for the filing, and the state where the filing is required);

10. Individuals in the household who do not drive or are not licensed due to license suspension or revocation;

11. Name, driver's license number, state licensed, and date of birth of all operators;

12. Marital status, including the name of spouse if not listed as an additional driver;

13. Details about all motor vehicle convictions and accidents in the preceding three years involving the applicant and anyone who operates the applicant's vehicle(s);

14. A vehicle schedule which would include the following:

    a. Year, make, model, odometer reading, vehicle information number, and license plate number;

    b. State registered and registered owner's name;

    c. Garaging address (city, state, zip code);

    d. Vehicle seating capacity (public autos only);

    e. Vehicle gross weight (trucks only);

    f. Vehicle gross combined weight (trucks only);

    g. Vehicle size (trucks only);

    h. Vehicle use (trucks only);

    i. Vehicle radius of operation;

    j. Vehicle rating territory; and

    k. If uninsured motorist property damage coverage is purchased, information regarding whether there is existing damage to vehicle;

15. All coverages required, including any hired auto and/or employers nonownership, (if liability limits exceed minimum limits, indicate requirement);

16. Total policy premium amount, plus gross deposit amount submitted;

17. Selection of payment plan option;

18. Name of last automobile insurer, policy number, termination date, and reason for termination, if available;

B. **Supporting Documentation**

Each new application submitted to the Plan shall be accompanied by a legible photocopy made by the producer of **both** of the following:

1. The current, valid driver's license, temporary license, or operating permit of the applicant and all principal operators, including out of state and international licenses. If physical copy of license is unavailable due to suspension or revocation, indicate such on the application.

2. The current vehicle registration, or if not available, a document showing proof of vehicle ownership.

C. **Signature of Applicant**

The application shall be signed by the applicant under penalty of perjury under the laws of the state of California certifying that the information provided by the applicant on the application is correct.

D. **Disclosures on Application**

1. The application shall include all disclosures required by California law.

2. The application shall contain verbatim the following statements, in bold type:

a. "Any person who knowingly makes an application for motor vehicle insurance coverage containing any statement that the applicant resides or is domiciled in this state when, in fact, that applicant resides or is domiciled in a state other than this state is subject to criminal and civil penalties."

b. "Any person who knowingly presents a false or fraudulent claim for the payment of a loss is guilty of a crime and may be subject to fines and confinement in state prison."

c. "I understand that if I owe money for a prior CAARP policy which I have not formally appealed to the California Insurance Commissioner, the money I submit with this application for a new CAARP policy will be applied to that prior policy, and I am not entitled to a refund of the money I submit with this application, even if coverage for this new policy is terminated, until I pay the full amount owed for all current and prior CAARP policies."

3. The application shall include an agreement by the applicant to remit a check, money order, or bank draft of the applicant, producer of record, or financing institution as directed by the servicing carrier, for the balance of the full premium for the policy, within 30 days of notification or, if the insured has so elected, to make payments as specified in Section 44.

4. When the insurance is to be written on a basis requiring final adjustment of the premium after expiration of the policy, the application shall include a statement by the applicant that the applicant will maintain a complete record of his or her financial transactions in any reasonable form and manner

as the servicing carrier may require and that this record will be available for inspection by the servicing carrier at a designated place and at all reasonable times including for a period of 18 months after expiration of the policy for policies issued by a servicing carrier.

E. Information disclosed in the application shall not be disclosed by the Plan, certified producers, or servicing carriers, except in accordance with this Plan or California law.

Sec. 42. RESERVED FOR FUTURE USE

Sec. 43. EXTENT OF COVERAGE

A. Coverages and Limits

Bodily Injury, Property Damage, Medical Payments, and Uninsured Motorist Coverage

1. The servicing carrier shall be required to write a policy for bodily injury liability coverage in amounts of $15,000 per person and $30,000 per occurrence, and property damage liability coverage in the amount of $5,000.

2. An insured assigned under the Plan may, at his or her option, also purchase coverage to be written in the same policy as the liability coverages for

a. The minimum amounts necessary to provide exemption from any of the requirements of the financial responsibility laws of the California Vehicle Code or for which proof of ability to respond in damages or adequate protection against liability is otherwise required by a valid law, ordinance, regulation, or other requirement of a political subdivision.

b. Medical payments coverage in the amount of $1,000 for private passenger automobiles shall be available to an applicant upon request, but written only in connection with the same policy issued in accordance with this Plan affording bodily injury and property damage coverage and written only on a basis in excess of all other valid and collectible insurance covering the same loss.

c. Uninsured motorist protection required by California law at limits of $15,000 per person and $30,000 per occurrence for bodily injury and $5,000 property damage shall be provided for vehicles principally used or principally garaged in this state. However, that protection may be waived if the only coverage with respect to the use of any motor vehicle is limited to

the contingent liability arising out of the use of nonowned motor vehicles, or if the servicing carrier and any named insured have agreed in writing to delete this protection.

B. **Standard Policy Coverage**

1. Commercial Auto Coverage Part Program

Risks eligible for assignment in accordance with Section 46 shall be afforded coverage on an automobile insurance policy and related endorsement forms approved by the California Department of Insurance. Risks shall be provided uniform coverage, equivalent to the coverage most recently approved by the California Department of Insurance for use with California Automobile Assigned Risk Plan business.

Policies issued under the provisions of the Commercial Automobile Part shall indicate that they have been issued on behalf of the California Automobile Assigned Risk Plan.

Restrictive endorsements shall not be employed unless approved by the Commissioner after consultation with the Committee.

2. Filing of Policy and Endorsement Forms

Any required filing of policy or endorsement forms shall be made on behalf of all insurers subscribing to this Plan by AIPSO. For the purposes of such filings, each insurer subscribing to the Plan is a subscriber to AIPSO.

Sec. 44. PREMIUM PAYMENT OPTIONS

The applicant or producer shall submit a separate check or money order payable to the Plan with each application. The initial payment shall be in the form of an applicant's check, producer's check, certified check, bank check, or money order. If the premium is to be financed, a separate check or draft shall accompany each application. The full annual premium payment option, the advance premium payment option, and the installment premium payment options shall be available to applicants.

A. **Full Annual Premium Payment Option**

The full annual premium shall be submitted as a deposit with the application if the applicant elects the full annual premium payment option. If the premium check is inadequate, the outstanding premium balance shall be due within 30 days of the date of the premium notice.

B. **Advance Premium Payment Option**

A deposit of 25% of the estimated total annual premium or a minimum deposit per vehicle or power unit, whichever is greater, shall be submitted with the application. The balance of the total annual premium is due within 30 days of the date the servicing carrier bills the insured.

The minimum deposit premium requirements per vehicle or power unit are as follows:

1. Private passenger automobiles — $125 per vehicle

2. Commercial or other motor vehicles written at minimum limits of $15,000/30,00/5,000 — $500 per power unit

3. Commercial vehicles requiring filings with a government agency or higher limits — $1,000 per power unit

C. **Installment Premium Payment Options**

The installment premium payment option is not available if any portion of the annual premium is financed by a premium finance company. If any portion of the annual premium is financed after the installment premium payment option is elected, the servicing carrier may bill the insured immediately for the unpaid balance of the annual premium.

1. Deposit

An advance gross deposit of at least 25% of the estimated annual premium, or the minimum premium deposit per vehicle or power unit required in accordance with Section 44.B.1 through 3, whichever is greater, shall be submitted on new assignments and renewals.

2. Installments

The first installment due bill shall reflect the current annual premium minus the deposit to arrive at any outstanding balance. Each installment due bill shall be in statement form and shall show the opening or current outstanding balance, any credits or adjustments thereto, the current installment amount due, any amount past due, and the installment charge for the current installment. Subsequent installments due should be billed in substantially equal whole dollar amounts until the full premium is paid.

a. Option #1 — Available to All Plan Applicants

A maximum of five installments per policy year will be provided. Each installment shall consist of one-fifth of

the remainder of the premium, subject to a minimum premium of $20 (to which any outstanding balance of less than $20 is to be added), plus an installment charge of $4 on each installment.

The due date for the first installment shall be up to 60 days following the effective date of the policy. Subsequent installments shall be due on a monthly basis thereafter until the full annual premium has been remitted.

b. Option #2 — Available to CAIP Applicants Only

A maximum of nine installments per policy year will be provided. Each installment shall consist of one-ninth of the remainder of the premium, subject to a minimum premium of $20 (to which any outstanding balance of less than $20 is to be added), plus an installment charge of $4 on each installment.

The due date for the first installment shall be up to 60 days following the effective date of the policy. Subsequent installments shall be due on a monthly basis thereafter until the full annual premium has been remitted.

At any point during the installment billing period, the policyholder may elect to pay the balance outstanding, and the servicing carrier shall include installment charges only for those installments billed.

If an installment amount due is unpaid when the next installment is due to be billed, a Notice of Cancellation shall be issued in lieu of the installment due bill. The cancellation notice shall reflect the outstanding balance of the account, the past due installment as well as the current installment. The total of the past due installment and the current installment shall become the minimum amount required to reinstate the policy. If this minimum payment is received by the due date of the current installment, the policy shall be reinstated and subsequent installments shall be processed on schedule. In the absence of payment of the minimum payment required

by the due date of the current installment, the total outstanding balance shall be paid on or prior to the effective date of cancellation to reinstate the policy.

Premium adjustment on account of cancellation of coverage for nonpayment of any installment shall be computed upon the pro rata basis.

Copies of all bills and notices shall be sent simultaneously to the insured and to the producer.

3. Additional Premium — Changes

Except as noted below, additional premium resulting from changes to the policy during its term shall be spread over the remaining premium installments, if any. If the policy is subject to audit, any adjustment to the deposit and past installments shall be billed immediately. If there are no installments remaining, the full amount of the additional premium shall be billed immediately.

For policies which develop an additional premium as a result of an inadequate deposit submitted with the application or policy change request, or shortage in premium resulting from a policy change request, preliminary premium audit, or other determination of a premium shortage, the total additional premium must be billed within 30 days from the date of determination of the additional premium due, or the next premium installment billing date, whichever occurs first. The premium payment due date must not exceed 30 days from the premium billing date.

4. Return Premium — Changes

If the outstanding premium balance is eliminated, the remaining return premium amount shall be refunded to the insured or his assignee within 30 days from the date the servicing carrier receives the change. Return premium resulting from changes in the policy shall be used to reduce any premium balance outstanding. If any outstanding premium balance remains, the number and amounts of the remaining installments shall be adjusted accordingly, except that when the return amount is less than $20 it may then be treated as a separate transaction.

D. **Deposit, Installment, or Additional Premium Payments Applicable to A, B, or C, Above**

The deposit accompanying the application shall be by applicant's check, producer's check, certified check, bank check, or money order, or by premium finance company

check or draft payable to the California Automobile Assigned Risk Plan. Producer commission shall be paid in accordance with Section 52.

The Manager shall immediately return the premium check if the risk is not assigned. The servicing carrier shall credit the deposit against the gross premium if the risk is assigned. The servicing carrier shall refund any portion of the deposit only as provided in Sections 44.E and F.

Installments and additional premium payments shall be by applicant's check, producer's check, certified check, bank check, or money order payable to the servicing carrier.

A premium finance company check submitted as premium payment shall be made payable to either the California Automobile Assigned Risk Plan or the servicing carrier.

If the deposit premium is inadequate or the policy develops an additional premium as a result of a shortage in the policy change request deposit premium, preliminary premium audit, or other determination of a premium shortage, the servicing carrier shall bill for the deficiency within 30 days from the determination of the additional premium due, or in the next premium installment, whichever occurs first. Refunds may be applied to the outstanding balance due or refunded immediately if the outstanding balance is eliminated.

If the policy is subject to audit, any adjustment to the deposit and past installments shall be billed immediately.

E. **Premium Financed Policies**

1. If the premium is financed, the payment tendered to the servicing carrier shall be accompanied by a copy of the financing agreement and a copy of a power of attorney, if any.

2. No instrument of payment may impose terms or conditions affecting any return of premium due to cancellation of the assigned policy which are inconsistent with the Plan rules or the terms of the insurance policy, and the servicing carrier may refuse to accept such form of payment if the financing agreement or payment draft contain any term or condition relating to the cancellation of any return premium and/or commission that is inconsistent with the Plan rules or the terms of the insurance policy.

F. **Dishonored Checks**

If any check is dishonored, the servicing carrier may impose a dishonored check fee of up to $10, and the Manager or servicing carrier may require all further payments from that maker to be in the form of a certified check, bank check, or money order for a period of 12 months from the date the check was dishonored

Servicing carriers shall notify the Manager of producers who submit dishonored checks. The Manager may require those producers to submit a certified check or money order with future applications.

G. **Premium Owed For Prior Insurance**

If an applicant is assigned or reassigned to a servicing carrier and the applicant owes a servicing carrier earned premium for prior Plan coverage, the deposit check shall be applied to the earned premium and coverage shall be afforded in accordance with this Section.

1. The earned premium owed shall meet all of the following criteria:

   a. The earned premium shall be owed on a prior Plan policy in effect within 36 months prior to the time of the application.

   b. The earned premium shall not be the subject of a formal complaint to the Insurance Department or an appeal under Section 16.

   c. The servicing carrier shall have previously given written notice to the insured of the earned premium due.

2. If the earned premium meets all of the above criteria the servicing carrier shall proceed as follows:

   a. If the deposit premium is insufficient to satisfy the full amount of the outstanding earned premium due for prior Plan coverage, the servicing carrier shall apply the deposit check to the prior Plan policy. The servicing carrier shall return the application to the Plan as ineligible for Plan coverage due to the outstanding premium balance. No coverage is in effect.

   b. If the deposit is insufficient to satisfy the full amount of the outstanding earned premium due for prior Plan coverage, the servicing carrier shall apply the deposit check to the prior Plan policy. The servicing carrier shall issue a new policy and a cancellation notice for payment of the deposit balance.

   c. If the applicant's premium deposit is in the form of a finance company check, the application accompanied by the finance company check shall be returned to the producer as ineligible.

   d. If the applicant can furnish documentation that (1) the outstanding earned premium in question was the result of a premium audit, and (2) the applicant is disputing the findings of that audit, the servicing carrier shall not apply the applicant's

deposit premium to resolve the outstanding premium balance for prior coverage. Coverage shall be provided in accordance with Section 46. The premium dispute shall be resolved in accordance with Section 16.

e. Notwithstanding Section 44.G.2, the effective date of termination of coverage for applicants for whom the servicing carrier has made a filing with a government agency shall conform to applicable rules.

Sec. 45. RESERVED FOR FUTURE USE

Sec. 46. APPLICATION FOR ASSIGNMENT, DESIGNATION OF SERVICING CARRIER, EVIDENCE OF INSURANCE, AND EFFECTIVE DATE OF COVERAGE

A. **Verification of Application**

Upon receipt of an application and prior to assignment to a servicing carrier, the Manager shall verify that the form is properly completed, signed, and dated. In so verifying, the Manager shall perform all of the following:

1. Examine every required form to ensure that each is completely and correctly filled out, signed, and dated, and that all required documents are attached thereto.

2. Provide written notice to the applicant and the producer specifying all violations in the application, and requiring correction of those violations within 10 working days of the postmark date of the notice.

3. Confirm the certification of the producer who submitted the application.

4. Maintain a computerized data base reflecting each producer's application submission history for a period of three years, including the names of all individuals placed in the Plan, all violations accrued, and actions taken to correct those violations, if any.

B. **Designation of Servicing Carrier**

Upon determination by the Manager that the application has been properly completed, signed, and dated and that the risk is eligible for assignment, the Manager shall designate a servicing carrier to which the application shall be assigned. The Manager shall advise the applicant and producer of the designated servicing carrier and the effective date of coverage.

C. **Effective Date of Coverage**

For the purposes of Section 46, the postmark which is to be recognized by the Plan shall be the postmark of the United States Postal Service. A meter stamp shall not be considered a postmark of the United States

Postal Service for the purpose of affecting coverage.

The Plan shall provide for effective dates of coverage consistent with all of the following:

1. In no event shall coverage be effective prior to the date and time of completion, signing, and dating of the application forms.

2. When the applicant requires that coverage be effective immediately, the effective date and time shall be established using an Electronic Effective Date Procedure established by the Plan. The Plan shall establish a future effective date using the Electronic Effective Date Procedure. The future effective date option shall be available upon request by an applicant. An applicant may request a future effective date of 15 days or less from the date of application completion.

   The Manager shall establish and maintain a toll-free telephone number as part of the Electronic Effective Date Procedure. The Manager shall maintain sufficient capacity to service, in a timely manner, applications received by means of the Electronic Effective Date Procedure.

   The Electronic Effective Date Procedure shall be available only to producers who are certified by the Plan.

3. Coverage for vehicles shall become effective at the date and time the application is transmitted through the Plan's Electronic Effective Date Procedure if and only if all of the following requirements are met:

   a. The producer shall access the Electronic Effective Date Procedure within 24 hours of the date and time the application is completed, signed, and dated.

   b. The producer and the applicant certify under penalty of perjury on the application the date and time that the application forms were completed, signed, and dated.

   c. The producer uses the Electronic Effective Date Procedure adopted pursuant to Section 46.C and inserts the reference number or other required verification code on the application.

   d. The application forms and required deposit are mailed to the Manager no later than two working days following the date the application forms are completed, signed, and dated. The mailing date is established by the United States Postal Service

postmark on the envelope enclosing the application.

4. If the application is made without using the Electronic Effective Date Procedure (including submission by mail or delivery by means other than the United States Postal Service), or if there is not compliance with the provisions of Section 46.C.3, coverage shall be effective as of 12:01 A.M. on the date following receipt of the application in the Plan Office unless a future effective date is requested or an in force policy is terminating.

5. If the applicant desires coverage on a date later than that which would otherwise be fixed pursuant to this Section, the applicant shall indicate that date and the Manager shall fix the effective date of coverage as of 12:01 A.M. on the desired date of coverage. However, no date shall be later that 45 days after the date of application.

6. In the event there is in force a policy terminating at a date later than the date that would be fixed pursuant to this Section and the applicant indicates such date in his application, the Manager shall fix the date when coverage becomes effective as 12:01 A.M. on the stated termination date of such policy.

7. The effective date of coverage for an additional vehicle to be added to an in force policy or for other coverage to be added to an in force policy shall not be subject to the requirements of this Section, but shall be governed by the terms of the policy and the provisions of Section 47.

8. In order to provide evidence of a requested effective date, the producer of record shall maintain records in accordance with Section 20.G for all risks for which he or she has designated the time and date of coverage.

9. Where the Plan's Electronic Effective Date Procedure is disrupted due to failure of transmission or receiving equipment due to fire, earthquake, explosion, civil unrest or similar disaster or emergency, the producer may bind coverage up to one day prior to the time the application forms and deposit are mailed to the Manager, as established by the United States Postal Service postmark on the envelope in which the application was enclosed. In no event shall coverage be effective prior to the date and time the application is completed, signed and dated.

10. Notwithstanding any other provision of this Section, where the producer discovers

a material error in an application, the producer shall be authorized to rescind coverage bound for a period up to 24 hours after the date and time established pursuant to the Plan's Electronic Effective Date Procedure.

D. **Plan Submission to the Designated Servicing Carrier**

The Manager shall forward to the servicing carrier the application, a copy of the notice of the effective date of coverage, and the deposit premium to be credited by the servicing carrier against the policy premium.

E. **Financial Responsibility Certificates**

If the applicant obtains coverage under the Plan, and the applicant or any resident of the same household who usually drives the insured vehicle requires a financial responsibility certificate (SR-22), the Manager shall, on behalf of the servicing carrier, and at the time the application is received, process the certificate and notify the servicing carrier, the producer, and the insured. The filing shall become effective as of the effective date of coverage.

F. Applicant Refusal to Accept Policy

If for any reason the applicant refuses to accept the policy, or coverage is terminated pursuant to Section 51.B, the return premium shall be calculated at .90 of the pro rata unearned premium for the period of coverage, subject to a minimum premium of $250 per vehicle or policy, whichever is greater.

G. **Reassignment to Prior Servicing Carrier**

Applicants to the Plan shall be reassigned to the prior servicing carrier if a previous assignment of that applicant was made in the immediately preceding 36 months.

Sec. 47. ADDITIONAL VEHICLES OR COVERAGES

A. In the event additional coverages as described in Section 43 of this Plan are desired during the policy period, coverage for an additional or replacement vehicle is desired, or a change in driver is requested, a written policy change request shall be submitted directly to the servicing carrier no later than three working days after its receipt by the producer. Policy change requests submitted by facsimile shall not become effective until the servicing carrier receives the additional premium required for changes resulting in additional premium. Upon receipt of the policy change request, the servicing carrier shall endorse the in force Plan policy.

B. Premium requirements for policy change requests include

1. The policy change request shall be accompanied by additional payment, if required, in the form of a check or money order payable to the assigned servicing carrier for an amount equal to 25% of the estimated annual gross premium attributed to the policy change, or the

full pro rata premium for the remainder of the policy period, whichever is less. Policy change requests not accompanied by the above deposit, or submitted with an inadequate deposit, shall not be processed by the servicing carrier and no coverage shall be in effect except as otherwise provided in the policy contract.

2. The balance of the premium shall be payable in accordance with the provisions of Section 44.

3. All premium payments shall be submitted on a gross basis.

C. Except as otherwise provided in the policy contract, coverage shall be effective at the date and hour specified in the policy change request provided

1. the producer and applicant certify the date and hour of completion of the policy change request, and

2. the producer mails or delivers by means other than the United States Postal Service the policy change request to the servicing carrier within one working day of its completion, and

3. the United States Postal Service postmark date on the transmittal envelope, or date affixed to the shipping invoice, complies with the mailing requirement shown in Section 47.C.2.

In no event shall coverage be effective prior to the date and hour of completion of the request, except as provided for in the policy contract.

D. If the provisions of subsections 47.C.2 and 3 above are not met, the effective date of coverage shall be determined as follows:

1. The coverage shall be made effective at 12:01 A.M. on the day following the date the policy change request is mailed to the servicing carrier as shown by the postmark if the transmittal envelope bears a legible postmark affixed by the United States Postal Service.

2. If the transmittal envelope was mailed and does not bear a legible postmark of the United States Postal Service, or is stamped by a postage metering device, coverage shall be effective at 12:01 A.M. on the date the policy change request is received by the servicing carrier.

3. If the policy change request is delivered to the servicing carrier by means other than the United States Postal Service, coverage shall be effective at 12:01 A.M. on the day following receipt by the servicing carrier.

E. For a policy change request not resulting in additional premium and transmitted to the servicing carrier via facsimile (“fax”), coverage shall be made effective at 12:01 A.M. on

the day following receipt by the servicing carrier.

F. The rates for the additional vehicle and/or coverage shall be those in effect at the time of the change. The driving performance premium modifications for an additional driver shall be based upon the convictions occurring within the 36 months immediately preceding the date the driver is added to the policy.

G. The producer shall maintain appropriate records for all risks for which he or she has submitted policy change requests in accordance with Section 20.G.

Sec. 48. RESERVED FOR FUTURE USE

Sec. 49. THREE-YEAR ASSIGNMENT PERIOD

The assignment period shall be 36 consecutive months. If an insured is unable to obtain insurance at the end of the three-year assignment period, reapplication may be made to the Plan.

In the case of nonresident military personnel, as described in Section 40, the servicing carrier shall not be required to renew if at the time of the renewal the insured is stationed in another state and his or her automobile is not registered in California.

Sec. 50. CHANGE OF OWNERSHIP/TRANSFER OF LOSS EXPERIENCE

A. All exposures of commonly owned entities (as determined in Section 50.C.2) and insured in the Plan should be written on the same policy and combined for rating purposes. All entities of a risk shall be combined when determining eligibility for experience rating. All previous experience of a risk shall continue in the experience rating subject to the provisions of Section 50.C below:

B. The insured shall report any change to the servicing carrier, in writing, within 30 days of such change. The type, nature, and details of the change shall be provided to the servicing carrier for purposes of determining eligibility for such change as stated in Section 50.C. The appropriate information shall be provided on the Name and/or Ownership Change Form approved for use in the Plan, which shall be fully completed and signed by the insured. The Name and/or Ownership Change Form is available from the Plan or servicing carrier upon request.

C. Eligibility for changes shall be determined in accordance with the following:

1. Ownership

The experience for any entity undergoing a change in ownership shall be excluded from future experience rating only if **both** of the following conditions are met:

a. The change shall be a material change such that the entire ownership interest after the change had no ownership interest before the change. A transfer of ownership to a

family member (whether natural or by law), a household resident, or a previous owner is not considered a change in ownership.

b. The change in ownership is accompanied by a change in company management. A change in company management is defined as including all of the following, but not limited to, the chairman of the board, president, partners, and other executive officers.

2. Combination of Entities

Entities with a majority (more than 50%) common ownership interest shall be combined for rating.

a. Determination of majority ownership is based on the following:

(1) majority of issued voting stock.

(2) majority of the members if no voting stock is issued.

(3) majority of the board of directors or comparable governing body if C.2.a(1) or (2) above is not applicable.

(4) Participation of each general partner in the profits of a partnership. Limited partners are not considered in determining majority interest.

b. If the rules above provide for more than one possible combination of entities, the combination involving the most entities shall be made. However, the experience of any entity may be used in only one combination.

3. Reapplication to the Plan

Any change in ownership, including legal status and reincorporation, necessitates a new application, with the appropriate deposit, be submitted to the Plan for assignment.

D. **Failure to Complete Form**

Failure of the insured or producer to provide complete information on the approved form may delay a return premium due the insured pending receipt of the completed form. Upon the request of the servicing carrier, a Name and/or Ownership Change Form shall be fully completed and signed by the insured within 10 days of the date of the request. Failure of the insured or producer to return the fully completed and signed form following two written requests by the servicing carrier, could result in loss

of coverage as stated in Section 51 of this Plan.

Sec. 51. CANCELLATIONS

A. **Cancellation at Request of Insured**

If for any reason the insured requests cancellation, the return premium shall be calculated at .90 of the pro rata unearned premium for the period of coverage, subject to a minimum premium of $15 per vehicle or policy, whichever is greater. The servicing carrier shall return the balance to the insured. In the following cases, the return premium shall be computed pro rata:

1. If the insured has disposed of the automobile, provided the insured takes out a new policy with the same servicing carrier on another automobile to become effective within thirty days of the date of cancellation.

2. If the insured automobile is repossessed under terms of a financing agreement.

3. If an automobile is deleted from a policy, the policy remains in force on other automobiles; or if there remains in force in the name of the insured or his or her spouse, if a resident of the same household, and with the same servicing carrier, a concurrent auto policy covering another auto.

4. If the insured enters the armed forces of the United States of America.

5. If the insured auto is stolen or destroyed (total or constructive total loss) and cancellation is requested by the insured within 30 days following the date the auto is stolen or destroyed. The return premium for all coverages (including the premium for coverage under which the loss was paid) shall be calculated from the day following the date of such loss.

6. If the insured requests cancellation of a policy because that coverage has been placed in the voluntary market, and the servicing carrier receives a statement to that effect and proof of a replacement policy.

B. **Cancellation by Servicing Carrier**

1. A servicing carrier which has issued a policy under this Plan shall have the right to cancel the insurance by giving notice as required in the policy if the insured

   a. has obtained the insurance through fraud or material misrepresentation, or

   b. has failed to pay any premiums, including installments or the final premium adjustment, due under the policy, or

c. has failed to remedy defects in the application as outlined in Section 41, or

d. cannot be located by the servicing carrier for purposes of its underwriting review, or fails to respond to at least two written requests for pertinent underwriting information which would have a direct bearing on the rating of a policy, or

e. fails to respond to two documented requests to schedule a premium audit, or does not permit the auditor to complete the audit.

2. A servicing carrier which has issued a policy under this Plan shall also have the right to cancel the insurance if a premium finance company or producer requests cancellation by exercising an appropriate power of attorney given by the insured.

3. Each such cancellation shall be on a pro rata basis subject to a minimum earned premium of $250 per vehicle or policy, whichever is greater, with the balance returned to the insured or his or her assignee. A copy of each such cancellation notice shall be furnished to the producer. A statement of facts in support of each such cancellation shall be sent to the producer and to the insured at least 10 days prior to the effective date of cancellation.

Cancellation shall be effective on the date specified and coverage shall cease on such date

Sec. 52. COMMISION TO PRODUCER OF RECORD

A. The designated servicing carrier to which an assignment has been made shall pay the producer a commission for the producer's services in accordance with the following:

1. For long-haul trucking risks and public automobile risks (as defined in Definitions Part, Section 1), 5% of the premium received from the applicant which shall be $35 minimum earned commission at the inception date of the newly issued policy, with the remainder earned pro rata after the first $35 would have been earned pro rata.

2. For other classes of risks, 12% of the premium received from the applicant, which shall be $35 minimum earned commission at the inception date of a newly issued policy, with the remainder earned pro rata after the first $35 would have been earned pro rata.

For policies which include vehicles under both 1 and 2 above, compensation will be paid at the lesser commission rate unless 80%

or more of the risk qualifies for the higher commission rate.

B. The commission percentages specified above shall apply to surcharges added to the premium.

C. A producer accounting system may be utilized by the servicing carrier in its payment of producer commission.

D. Full commission earned on the total annual premium is payable within 45 days of issuance of the policy.

E. No commission is payable upon any installment charge.

F. In the event of cancellation, a policy change, or a final audit resulting in a reduction or an increase in premium, commission shall be payable on the earned premium received by the servicing carrier.

G. If a policy is cancelled or a policy change results in a reduction in premium, the producer shall pay any unearned commission to the servicing carrier within 30 days of receipt of the servicing carrier's notice to the producer requesting return of unearned commission.

H. Final commission adjustment shall be in accordance with this Section.

I. Should the producer fail to provide his or her tax identification number, the servicing carrier may defer payment of commission until the proper identification is provided.

Sec. 53. RESERVED FOR FUTURE USE

Sec. 54. PERFORMANCE STANDARDS FOR SERVICING CARRIERS WRITING CALIFORNIA AUTOMOBILE ASSIGNED RISK PLAN COMMERCIAL RISKS

A. **Servicing Carrier Performance Standards**

These servicing carrier performance standards set forth the specific requirements that servicing carriers shall meet in the underwriting and servicing of all insurance policies written through the Plan. Each failure to comply with one of these servicing carrier performance standards, or to comply with any statute or regulation governing assigned risk business or referenced in this Section, shall be considered one violation of the servicing carrier performance standards

1. Issuance of Original Policy

a. Upon receipt of the notice of designation and the deposit premium from the Plan, the designated servicing carrier shall

(1) if the Plan Office is unable to make a financial responsibility filing, within five working days after receipt of the Notice of Designation, the servicing carrier shall make filings of policies or financial, responsibility certificates, including SR-22s, provided all

information necessary is contained in the application form and such application is accompanied by the deposit prescribed in Section 44. Such filings will indicate the effective date specified by the Plan in the Notice of Designation.

(2) within 15 days of determination that an application contains a violation, the servicing carrier shall give written notice of the violation to the insured and to the producer and written notice that the insured has 15 days from the mailing of the notice to correct the violation.

The servicing carrier shall issue the policy without waiting for the correction unless the violation is material to determining the applicant's eligibility for coverage under the Plan or unless the servicing carrier lacks and cannot reasonably obtain sufficient information to issue the policy.

(3) within 30 days issue a policy to become effective in accordance with the provisions of Section 46 provided the applicant is eligible and all information necessary for the servicing carrier to fix a proper rate is contained in the application form.

b. Unless the servicing carrier finds the applicant ineligible for insurance under the rules of the Plan, the servicing carrier shall confirm the premium payment option selected. The assigned servicing carrier shall be guided by the following:

(1) Full Premium Payment Option

See Section **44.**

(2) Advance Premium Payment Option

See Section **44.**

(3) Installment Premium Payment Options

See Section **44**.

2. Renewal Policies or Certificates

For the purposes of Section 54, the postmark which is to be recognized by the Plan shall be the postmark of the United States Postal Service. A

meter stamp shall not be considered a postmark of the United States Postal Service for the purpose of effecting coverage.

a. All Commercial Insureds (Unless Otherwise Stated in Section 54.A.2.b)

(1) The servicing carrier may request current policy rating information from the insured by means of a renewal questionnaire which shall be mailed to the insured at least 75 days prior to the expiration date of the current Plan policy. If the insured fails to respond prior to 45 days before expiration of the current policy, the servicing carrier shall be deemed to have fulfilled its responsibility to quote a renewal premium and shall so advise the producer.

(2) At least 45 days but no earlier than 60 days prior to the inception date of renewals, the servicing carrier shall notify the insured that

(a) a renewal shall be issued provided the premium set by the servicing carrier is received at least one day prior to the inception date of such renewal. If the insured requires a financial responsibility filing, the premium payment should be postmarked at least one day prior to the inception date; or

(b) if the renewal is to be written on the installment premium payment option, such renewal shall be written provided the deposit premium (25% of the total annual premium) stipulated by the servicing carrier is postmarked at least one day prior to the inception of such renewal. If the insured requires a financial responsibility filing, the deposit premium should be postmarked at least one day prior to the inception date; or

(c) the Plan policy shall be nonrenewed because the insured is not entitled to insurance under the Plan.

For insureds not requiring a financial responsibility filing, renewal premium payments postmarked one day prior to the inception date of the renewal shall be considered to be on time as evidenced by

the postmarked of the United States Postal Service on the transmittal envelope. For insureds requiring financial responsibility filings, renewal premium payments postmarked one day prior to the inception date will be considered to be on time as evidenced by the postmark of the United States Postal Service on the transmittal envelope.

b. CAIP Insureds Requiring Filings with Government Agencies

(1) The servicing carrier may request current policy rating information from the insured by means of a renewal questionnaire which shall be mailed to the insured at least 95 days prior to the expiration date of the current Plan policy. If the insured fails to return the questionnaire, the servicing carrier shall issue a second request at least 80 days prior to the expiration date of the current policy. If the insured fails to respond prior to 65 days before expiration of the current policy, the servicing carrier shall be deemed to have fulfilled its responsibility to quote a renewal premium and shall so advise the Manager and producer.

(2) At least 55 days but no earlier than 85 days prior to the inception date of renewals, the servicing carrier shall notify the insured that

(a) a renewal shall be issued provided the premium set by the servicing carrier is received at least one day prior to the inception date of such renewal, or

(b) if the renewal is to be written on the installment premium payment option, such renewal will be written provided the deposit premium (25% of the total annual premium) stipulated by the servicing carrier is postmarked at least one day prior to the inception of such renewal, or

(c) the Plan policy shall be nonrenewed because the insured is not entitled to

insurance under the Plan.

Renewal premium payments postmarked one day prior to the inception date of the renewal shall be considered to be on time as evidenced by the postmark of the United States Postal Service on the transmittal envelope.

Renewal premium quotations shall be made in accordance with present Plan rules. A copy of the notice shall be provided to the producer.

Payment to the producer does not constitute payment to the servicing carrier unless and until such payment is actually received by the servicing carrier.

The servicing carrier shall mail renewal policies and/or certificates within 30 days of receipt of the appropriate renewal premium deposit specified under Section 54.A.2.a or b above.

3. End of Assignment Period

If the policy premium is less than $10,000, at least 60 days and no earlier than 120 days prior to the expiration date of the final renewal of the three-year assignment period, or for an insured filed with a government agency, at least 65 days prior to the expiration date of the three-year assignment period, the servicing carrier shall notify the insured that the period of assignment under the Plan shall terminate on the expiration date.

If the policy premium is $10,000 or greater, at least 45 days and no earlier than 120 days prior to the expiration date of the final renewal of the three-year assignment period, or for an insured filed with a government agency, at least 65 days prior to the expiration date of the three-year assignment period, the servicing carrier shall notify the insured that the period of assignment under the Plan shall terminate on the expiration date.

A copy of the end of assignment period notice shall be sent to the producer of record.

4. Endorsements

The servicing carrier shall mail requested endorsements within 30 days of receipt of the completed request for the endorsement.

5. Acknowledgment

The servicing carrier shall acknowledge receipt of requests for issuance of a policy or endorsement within 15 days of receipt of the request.

6. Return Premiums

The servicing carrier shall mail the return premium check within 30 days of the effective date of the cancellation or endorsement that results in a refund.

For commercial risks subject to audit, following the receipt of a

request for cancellation (or policy termination), the servicing carrier shall mail the return premium check within 30 days following the date the typed final audit is produced.

7. Premium Billing

All billing and payment guidelines are to be consistent with the provisions outlined in Sections 44 and 54 of the Plan.

For policies which develop an additional premium as the result of an inadequate deposit submitted with the application or policy change request, or shortage in premium resulting from a policy change request, preliminary premium audit, or other determination of a premium shortage, the total additional premium shall be billed within 30 days from determination of the additional premium due, or the next premium installment billing date, whichever occurs first. The premium payment due date shall not exceed 30 days from the premium billing date.

For policies subject to a final premium audit that results in an additional earned premium due the CAIP, the premium shall be billed within 30 days of the completion of the final premium audit and the premium due date shall not exceed 30 days from the premium billing date.

If the final premium audit develops a return premium, the servicing carrier shall remit gross return premium to the insured within 30 days from the completion date of the audit. The producer shall be billed for the return commission in accordance with Section 20.D.

8. Premium Collection

Servicing carriers are to follow the most current Plan rules—see Section 44 of this Plan.

The servicing carrier shall perform all the necessary collection functions to protect the assets of CAIP.

Within seven days following the premium payment due date, the servicing carrier shall issue Notice of Cancellation and cancel all financial responsibility filings if premium payment has not been received. Established collection practices of a servicing carrier shall include the following minimum standards:

a. at least two letters requesting immediate payment of the outstanding earned premium balance issued a minimum of 15 days apart with both letters being issued within 45 days following the cancellation effective date.

b. for policies subject to a final premium audit after policy expiration or cancellation, at least one letter requesting payment issued within 15 days following the premium due date of the final premium audit bill.

For all risks, once collection is turned over to an attorney or collection agency, the commission on the additional audited premium shall not be paid to the producer including when the servicing carrier is successful in collecting the

additional premium. All net collection expenses incurred by the servicing carrier shall be borne by CAIP.

Each servicing carrier shall develop specific written procedures to satisfy itself that ineligible charge-offs, as defined in the CAIP Accounting and Statistical Manual, are not submitted to the central processor. These procedures shall be reviewed during the servicing carrier compliance audit.

9. Commissions

Commissions shall be paid no less frequently than monthly and shall be paid within 15 days after the close of the month in which the commission was credited to the producer's account. The servicing carrier shall issue a statement and, if applicable, the proper commission check unless the producer fails to provide his or her proper tax identification number. Commission will be paid in accordance with Section 52.

A servicing carrier shall not file a producer complaint with the Plan concerning disputed unearned commissions unless after reasonable investigation it has a good faith belief that such commissions are currently owed to the servicing carrier.

The servicing carrier should take steps to collect unearned commission from the producer.

10. Motor Carrier Filing Fees

The servicing carrier may recoup from the insured the $10 administrative fee for motor carrier filings. Producer commission is not payable on the recoupment of the administrative fee.

11. Claim Handling

a. Servicing carriers shall provide policyholders and producers with information on how and where to report claims.

b. The servicing carrier shall be responsible for handling all claims properly and promptly in accordance with the terms of the policy contract subject to the limits of coverage provided. Claim adjustment practices and procedures of each servicing carrier shall correspond with those followed for voluntary business and shall include providing the producer with evidence of claims payment and reports of other resolution of claims. The servicing carrier shall comply with any fair claims practices laws and regulations.

c. Servicing carriers shall have the ability to service insurance claims in every state, the District of Columbia, and Canada.

d. Reserving

Reserving practices shall be consistent with those in place for the servicing carrier's voluntary book of business and shall comply with the requirements outlined in the

CAIP Accounting and Statistical Requirements Manual.

e. Expenses

All reported allocated loss adjustment expenses shall comply with the eligibility requirements outlined in the CAIP Accounting and Statistical Requirements Manual.

f. Fraud Prevention/Detection

All claims personnel shall receive training in and be aware of potential fraud indicators. The claims professional shall refer a claim for specialized fraud investigation within two working days of a determination of potential fraud. An outline of disputed issues and activities of the investigation shall be prepared.

The servicing carrier shall ensure that its special investigative handling complies with applicable statutes, regulations, and directives.

g. Penalties for Improper Claims Handling

Upon confirmation that a servicing carrier (active or in run-off), has made an improper loss payment, the servicing carrier shall reimburse the Plan as follows:

(1) for improper loss payment up to and including $1,000, the servicing carrier shall reimburse the CAIP Plan $1,000.

(2) for an improper loss payment from $1,001 up to and including $9,999, the servicing carrier shall reimburse the full amount of the improper loss payment to the CAIP Plan.

(3) for an improper loss payment equaling or greater than $10,000, the servicing carrier shall reimburse the CAIP Plan $10,000.

Note: For the purpose of this subsection, an improper loss payment is defined as a loss payment made where it is subsequently determined that no such coverage was in effect.

12. Surcharges

If required following receipt of motor vehicle records, within 60 days after the effective date of any policy issued or renewed as an assigned application and within 30 days after the servicing carrier receives the motor vehicle records, the servicing carrier shall adjust the premium in accordance with the

Manual and shall notify the producer and the insured of the adjustment and the reasons for it. If the insured cancels rather than paying the additional premium resulting from an upward adjustment, the servicing carrier shall refund unearned premium to the insured or his or her assignee on a pro rata basis.

The servicing carrier shall furnish an itemized listing of the basis for each surcharge at the time each surcharge is applied. No surcharge shall be applied which is not specifically authorized by the Plan Manual.

13. Underwriting\Rating

The servicing carrier shall

a. Properly price all policies in accordance with the approved rating plans contained in the Manual of Rules and Rates and establish procedures for appropriate and timely verification of policyholders' driving records through Motor Vehicle Reports and verification of classifications and territories.

b. Provide appropriate safety engineering and loss control service equivalent to voluntary market practices.

c. Attempt to secure and verify account loss history from the previous insurer or insurers to determine proper application of any applicable premium surcharge or rating plans.

d. Perform a preliminary premium audit on every applicant assigned for which a policy is written with one or more Any Auto coverage symbols.

Within 60 days from the effective date of coverage, two documented good faith attempts to make contact with the applicant for purposes of scheduling or conducting a preliminary premium audit shall be made.

It is expected that the audit shall be completed and distributed no later than 120 days following the effective date of coverage. Audits completed or distributed after 120 days due to circumstances beyond the control of the servicing carrier must be documented.

e. Conduct final premium audits following account expiration or cancellation when appropriate.

Within 60 days from the expiration or cancellation date of coverage, two documented good faith attempts to make contact with the applicant for purposes of scheduling or conducting a final premium audit shall be made.

It is expected that the audit shall be completed no later than 120 days following the expiration or cancellation date of coverage. Audits completed after 120 days due to circumstances beyond the control of the servicing carrier must be documented.

f. Make, maintain, and cancel all certificates and filings in accordance with any municipal, state or federal requirements.

14. Accounting/Statistical and Results Reporting

Servicing carriers shall have the ability to

a. Carry out all necessary accounting procedures and prepare reports as outlined in the CAIP Accounting and Statistical Requirements Manual on file with the Commissioner.

b. Collect the necessary data to disburse commission payments to producers and have the ability to store this data and report same to the Internal Revenue Service, annually as required.

15. Compliance Audits

It is the responsibility of the servicing carrier to furnish the appropriate files and records to the auditors performing a servicing carrier compliance audit. Failure to comply with this requirement will be reported to the Plan Manager with a request that the matter be brought to the attention of the Advisory Committee.

If it is necessary for the auditors to subsequently review files and records not available at the time of the scheduled audit, the additional costs of the audit will be borne by the servicing carrier.

In the event the files and records that support a claim are not located by the servicing carrier, the auditors will advise the Advisory Committee of their unavailability. The Advisory Committee may request that, in accordance with Section 54.A.11.g., the servicing carrier reverse the claim, including any loss and expense payments and removal of current and future loss and expense reserves.

B. Violations of Servicing Carrier Performance Standards

Any interested person may submit a report of any violations of the servicing carrier performance standards to the Manager. The Manager shall investigate each report, determine if it is valid, report the findings to the servicing carrier and the party submitting the report within 60 days of submission of the report, and maintain a record of each servicing carrier's failure to comply with the servicing carrier performance standards.

1. Assessing Servicing Carrier Performance

The performance of servicing carriers shall be assessed based upon five percent of each servicing carrier's average monthly number of Plan assignments during the preceding six months.

2. Notifications

The Manager shall assess each servicing carrier's performance regularly to determine whether the number of violations in any one month exceeds the five percent standard set forth in Section 54.B.1 and whether there are at least three

violations within that month. If the violations exceed the standard, the Manager shall take the following actions:

a. First Notification Letter

Mail a letter by certified mail notifying the servicing carrier of its failure to comply with the servicing carrier performance standards and requiring that corrective measures shall be taken and a report of such corrective measures be sent to the Manager within 15 days.

b. Second Notification Letter

Mail a second letter by certified mail if the servicing carrier exceeds its standard within the following 90-day period, notifying the servicing carrier of its failure to comply with the servicing carrier performance standards and requiring that corrective measures be taken and a report of such corrective measures be sent to the Manager within 15 days.

c. Third Notification Letter

Mail a third letter by certified mail should the servicing carrier violate the servicing carrier performance standards within 90 days following receipt of the second notification letter. This letter shall inform the servicing carrier of a subsequent failure to comply with the servicing carrier performance standards and advise that the case shall be referred to the Committee for investigation.

The Manager shall immediately send a copy of each of the above referenced letters to the Commissioner as they are issued and shall submit a monthly report to the Commissioner and the Committee listing the servicing carrier, the number of violations, letters that have been sent, and any responses.

3. Investigations

After sending a third letter, the Manager shall request the Committee to conduct an investigation of the servicing

carrier's assigned risk practices, except as provided in Section 54.B.3.d below.

a. The Committee shall notify the servicing carrier in writing that it may, within 15 days, submit written comments to the Committee regarding the complaints. The Committee shall also give notice to each person who submitted the report(s) under investigation that he, she, or they may provide written comments or documentation to the Manager within 15 days of the servicing carrier's submission. A copy or summary of the servicing carrier's submission shall be included with the notice.

b. Upon request, the Manager shall provide the servicing carrier, at least 10 calendar days before the servicing carrier's written comments are due to be submitted to the Committee and/or at least 10 days before any hearing convened by the Commissioner, with all relevant nonprivileged documents in the possession of the Plan or of any person who has filed a complaint, relating directly or indirectly to reports that the servicing carrier's conduct or service of Plan business has been inadequate or faulty, unless the Manager, servicing carrier Committee, or Commissioner has reason to believe that providing particular documents will facilitate fraud, misconduct, or the concealment of evidence.

c. Following review of any written submissions, the Committee shall submit a report with a recommendation to the Commissioner, either that no action be taken, or that the Commissioner consider action as set forth in the recommendation.

The Manager shall refer all claims of discrimination by a servicing carrier in claims handling on the basis of race, gender, income, religion, language, sexual orientation, ancestry, national origin, physical

disability, or assigned risk status to the Commissioner for independent evaluation and shall obtain the Commissioner's approval before referring such claims to the Committee, but a lack of acknowledgment or other response from the Commissioner within 30 days after referral is made (35 days if the information is mailed) shall be deemed approval to refer the matter to the Committee for investigation pursuant to Plan rules.

4. Action by Commissioner

The Commissioner may accept, reject, or modify the recommendations of the Committee.

a. Unless the Commissioner decides without the need for a hearing that the servicing carrier should suffer no adverse action, the Commissioner shall notify the servicing carrier that it may submit a request for hearing, in writing, to the Commissioner in care of the Department of Insurance, Rate Enforcement Bureau. Any request for hearing shall be received by the Commissioner within 20 days of the date of mailing of the notification to the servicing carrier, and the hearing shall be scheduled within 30 days of receipt of the request for the hearing.

b. After a hearing, if one is requested, the Commissioner may take any action provided for in this Plan and/or impose any penalty authorized by law.

Upon final disposition by the Commissioner, the Commissioner shall notify the servicing carrier, the Manager, the party or parties who submitted the report(s), and the Committee of the results of the Commissioner's investigation, the Commissioner's decision, and the reasons for the decision. In addition to or in lieu of penalties provided by law, in appropriate cases the Commissioner may direct the Manager to increase the servicing carrier's assessment for the costs of the Plan pursuant to California law, as the Commissioner may deem fair, adjusting the apportionment among companies as necessary. Violations of fair claims settlement practices regulations, alone or together with other noncompliance with these performance standards, are grounds for imposing such sanction.

Sec. 55 ADDITIONAL PREMIUM REPORTING TIME LIMIT

A servicing carrier must seek pre-approval to report additional premium of $5,000 or greater if the reporting date is more than three years following policy termination. The request shall consist of a cover letter, an Additional Premium Reporting Form as shown in the Accounting and Statistical Requirements Manual and the applicable documentation listed below. The request shall be submitted to AIPSO's Residual Market Audit Services (RMAS) for review with a copy of the cover letter and Additional Premium Reporting Form to the Commissioner and the Manager.

A. **Documentation to be Submitted**

1. For audited additional premium, provide the following:

   a. The premium audit detail providing the exposure, rates, premium calculation, and any applicable premium adjustments in determining the audited additional premium

   b. Legal summary report including background, position of parties, status of legal action taken, and probability of success, as well as pertinent exhibits

   c. Any other pertinent information relating to the investigation and resulting premium request

2. For unaudited additional premium, provide the following:

   a. Underwriting documentation which may include, where applicable:

      (1) declaration page, coverage forms, and endorsements of the subject policy(ies)

      (2) application - with the servicing carrier's date received identified (i.e, date stamp)

      (3) motor vehicle reports (MVRs)

      (4) rating worksheet with computation support

      (5) renewal notices/quotes

      (6) results of underwriting investigations or inspections

(7) policy change request(s)

(8) policy termination notice(s)

(9) prior years premium and loss information

(10) loss control report(s)

(11) additional premium calculation worksheet

(12) filings issuance

(13) collection activity

b. Premium detail including work papers in determining unaudited additional premium

c. Legal summary report including background, position of parties, status of legal action taken, and probability of success, as well as pertinent exhibits

d. Any other pertinent information relating to the investigation and resulting premium request

3. The above documentation should include the name, address, and telephone number of the contacts at the servicing carrier's operation who will be responsible for addressing questions relating to the underwriting, audit, loss control, claim, and legal files. Also, the servicing carrier must provide the name and address of the individual(s) to be notified of action taken on the request.

B. **Plan Office Documentation**

Upon receipt of a copy of the request from the servicing carrier, the Manager shall provide AIPSO's RMAS with a summary of any prior action taken by the Manager or the Advisory Committee concerning the subject of the request. The summary will include rule interpretations, action on extraordinary expense requests, and local directives pertinent to the request. The Manager shall also provide a copy to the Commissioner.

C. **Review of the Request**

Upon receipt of the initial and any subsequently submitted documentation, a review will be completed by AIPSO's RMAS within 20 business days. The review shall consist of testing the reasonableness of the classification and rating of the risk both at the time of the initial underwriting and, subsequently, exposure development including related premium audits, inspections, and external data used in

arriving at the exposure basis, and billing and collection activity.

D. **Questionable or Missing Items**

If the servicing carrier is unable to respond to requests for additional information within 20 business days of the date of the request, the review process terminates.

E. **Premium Reporting Recommendation**

Following completion of its review, AIPSO's RMAS will

1. notify the servicing carrier, in writing, that the additional premium request will be referred to the Advisory Committee with a recommendation for approval. A copy of the notification shall be sent to the Manager and the Commissioner. The Advisory Committee shall, without delay, take action on the recommendation, or

2. notify the servicing carrier, in writing, that the additional premium request will be referred to the Advisory Committee with a recommendation for disapproval. A copy of the notification shall be sent to the Manager and the Commissioner.

The Manager shall advise the Advisory Committee of all RMAS premium reporting reviews. The Manager shall schedule all disapprovals for Advisory Committee review. The Advisory Committee shall make a premium reporting determination, for all disapprovals, based on its review of the recommendation and documentation. When a review by the Advisory Committee is conducted, the servicing carrier may appear before the Advisory Committee to support its position. The Advisory Committee will provide the servicing carrier with its decision, in writing, with a copy to AIPSO's RMAS.

Note: The Advisory Committee may evaluate and direct the servicing carrier in the appropriate reporting of premium not subject to this procedure in accordance with the Plan manuals, Servicing Carrier Agreement, and regulatory authority applicable to the Plan.

F. **Reporting to Central Processor**

All additional premium reported under this rule will be accepted by the Central Processor only if the quarterly submission is accompanied by an approval, on the prescribed form, from RMAS or the Advisory Committee.

Secs. 56-57 RESERVED FOR FUTURE USE